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3Q EBT rose 4.1% YoY to VND2,698 billion

Vietnam Prosperity Bank (VPB) reported VND7,474 billion in 3Q21 net interest income (NII) (-19% QoQ, -5.2% YoY) and VND2,698 billion in earnings before taxes (EBT) (-46.4% QoQ, -4.1% YoY).

3Q NIM decreased 30bps YoY due to the decrease in average earnings yield

3Q net interest margin (NIM) decreased against the previous quarter to 8.21% (-83bps QoQ, -30bps YoY), of which the parent bank's NIM reached 5.32% (-43bps QoQ, -71bps YoY) and FEcredit's NIM was 24.13% (-158bps QoQ).

NPL ratio gained 53bps QoQ to 4.0% amid the pandemic

Non-performing loan (NPL) ratio surged in 3Q due to the COVID-19 pandemic, reaching 4.0% (+53bps QoQ). During the period, VPB made provision of VND4,979 billion (+18.6% QoQ, +28.6% YoY), and its loan loss provision coverage ratio (LLPCR) improved to 48.95% but was still low vs the banking system's average.

VPB should record profit from FE Credit divestment in 4Q21

At the end of April 2021, VPB sold 49% shares of FE Credit to SMBC Consumer Finance, a subsidiary of SMBC Group. VPB has completed the procedures so that the profit cash flow can be recorded in early 4Q21, thereby significantly improving liquidity indicators and average input costs.

BUY recommendation with the target price of VND41,600 per share

Based on valuation results, business outlook and possible risks of VPB, we suggest BUYING VPB shares. The target price is VND41,600 per share, 23.1% higher than the price on December 17, 2021.

Buy update

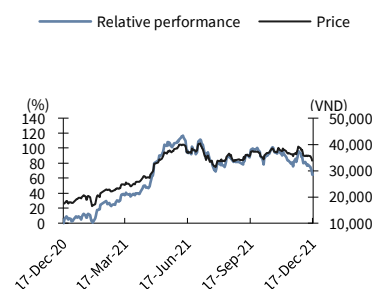
Target price	VND41,600
Upside/downside (%)	23.1
Current price (Dec 15, 2021)	VND33,800
Consensus target price	VND66,700
Market cap (VNDbn)	149,209

Trading data	
Free float (%)	95.0
3M avg trading value (VNDbn/USDmn)	541/23.9
Foreign ownership (%)	17.24
Major shareholder	Ngo Chi Dung (4.81%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-8	-8	-9	106
Relative	-10	-18	-14	65

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net interest income (VNDbn)	30,670	32,346	38,467	45,126
Pre-provisioning net revenue (VNDbn)	24,012	27,641	35,717	41,988
Profit attributable to parent (VNDbn)	8,260	10,414	12,355	15,126
EPS (VND)	3,265	4,116	2,733	3,346
EPS growth (%)	12%	26%	-34%	22%
PER (x)	18.6	14.7	22.2	18.1
Book value per share (VND)	16,684	20,867	20,033	24,264
PBR (x)	3.63	2.90	3.03	2.50
ROE (%)	21.5%	21.9%	18.5%	17.2%



Source: Bloomberg, KB Securities Vietnam

Updated business performance

3Q EBT was up 4.1% YoY to VND2,698 billion

In 3Q21, VPB's business activities were reeling from the fourth wave of COVID-19. This is reflected in the contraction of 3Q NII, which went down to VND7,474 billion (-19% QoQ, -5.2% YoY), of which NII of the parent bank rose 20.1% YoY while FEcredit's NII dropped 27.3% YoY. Non-interest income was VND2,658 billion (-5.6% QoQ, +67.4% YoY), making total operating income (TOI) reach VND10,133 billion (-15.9% QoQ, +7.0% YoY). Provision expense was at the highest level in recent quarters, hitting VND4,979 billion (+18.6% QoQ, +28.6% YoY), and EBT was VND 2,698 billion (-46.4% QoQ, -4.1% YoY).

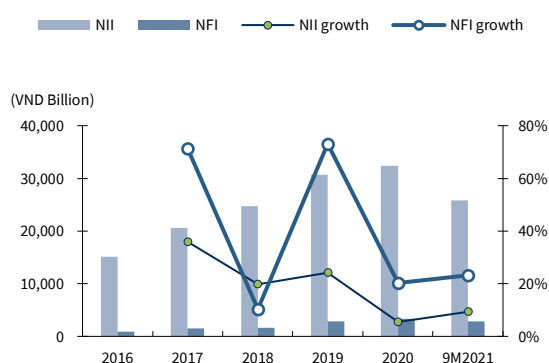
Credit ratio grew 3.3% QoQ and 10.1% YoY

Credit growth in 3Q improved compared to the last quarters (+3.3% QoQ, +10.1% YoY) with the parent bank's credit growth increasing by 3.6% QoQ. Meanwhile, FEcredit's credit growth reached 1.9% QoQ, rebounding after two consecutive quarters of decline. The ratio of corporate bonds to total outstanding loans gained 106bps QoQ to 8.85%.

3Q NIM declined 30 bps YoY due to a decline in average earnings yield at both parent bank and subsidiary FEcredit

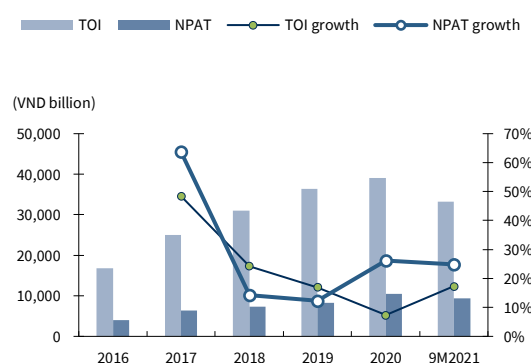
3Q NIM also went down to 8.21% (-83bps QoQ, -30bps YoY), of which the parent bank's NIM was 5.32% (-43bps QoQ, -71bps YoY) due to a decrease in average earnings yield when the bank raised the proportion of deposits to credit institutions and lower lending interest rates to support the economy. Meanwhile, FEcredit's NIM reached 24.13% (-158bps QoQ) with average cost of funds up 42bps QoQ and average earnings yield down 144bps QoQ.

Fig 1. VPB - NII & income from service growth (% YoY)



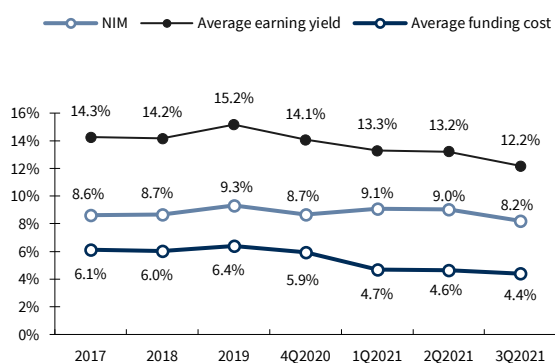
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 2. VPB - TOI & EBT growth (% YoY)



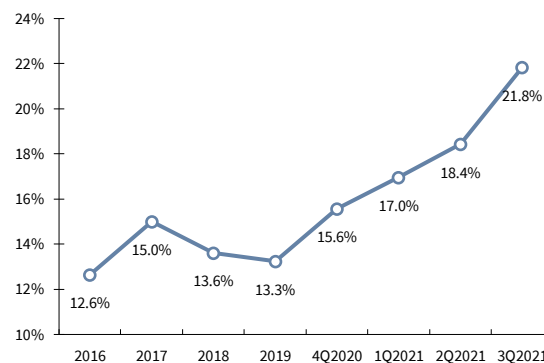
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 3. VPB – Interest rate & NIM growth (% YoY)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 4. VPB – CASA growth (% YoY)

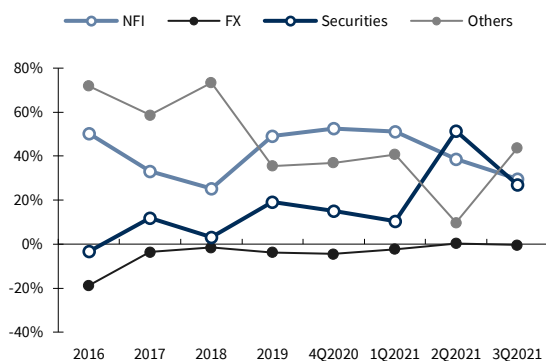


Source: Vietnam Prosperity Bank, KB Securities Vietnam

3Q NOII reached VND2,658 billion, up 67.4% YoY

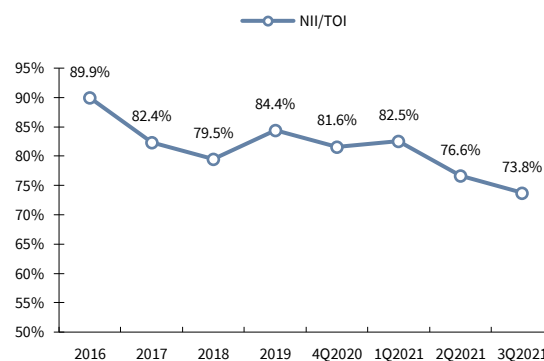
Interest from service activities was VND758 billion in 3Q (-24.1% QoQ, -3.1% YoY), of which interest from payment services rose 38.9% YoY and premium interest lost 25.7% YoY, which is the lowest quarterly growth from the beginning of 2020. Income from investment securities stayed high at VND727 billion (+185% YoY), helping non-interest income (NOII) to reach VND2,658 billion, up 67.4% YoY in 3Q. NOII/TOI increased 287bps QoQ to 26.2%.

Fig 5. VPB – NOII structure (% YoY)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

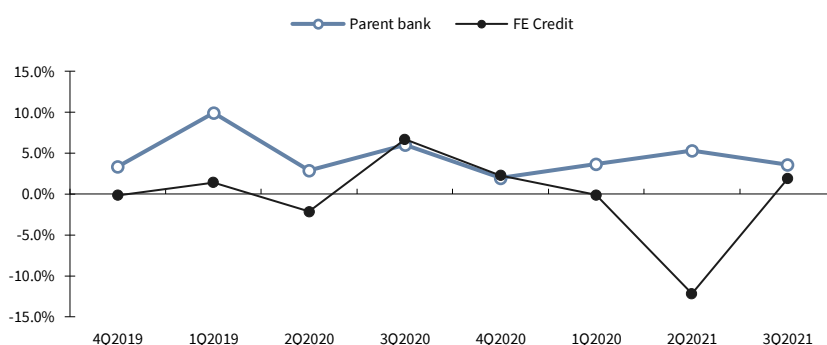
Fig 6. VPB – NII/TOI ratio (% YoY)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 7. VPB – Credit growth (% QoQ)

The parent bank's credit growth was 3.6% QoQ while FEcredit's credit growth was 1.9% QoQ after declining sharply in 2Q. However, this growth is still low level compared to 2020's (down 8.6% YoY)



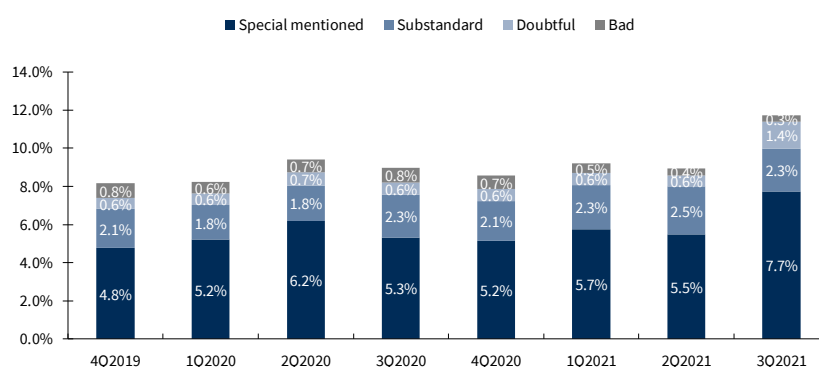
Source: Vietnam Prosperity Bank, KB Securities Vietnam

NPL ratio gained 53bps QoQ to 4.0% due to impacts from the pandemic

NPL ratio surged in 3Q due to the COVID-19 pandemic, reaching 4.0% (+53bps QoQ). During the period, VPB made provision of VND4,979 billion (+18.6% QoQ, +28.6% YoY), and its loan loss provision coverage ratio (LLPCR) improved to 48.95% but was still low vs the banking system’s average. The total value of restructured debt by the end of 3Q was VND15.9 trillion (+140% QoQ) or 4.5% of the total outstanding credit, of which VND10.5 trillion came from the parent bank (+69.3% QoQ), and VND5.4 trillion came from Fecredit (+12.5 times compared to 2Q). 9M21 provision value was VND438 billion, which was in line with the Circular 14/2021.

The proportion of special mention debts increased sharply in 3Q, raising concerns about NPLs and provisioning pressure in 4Q21 and 2022

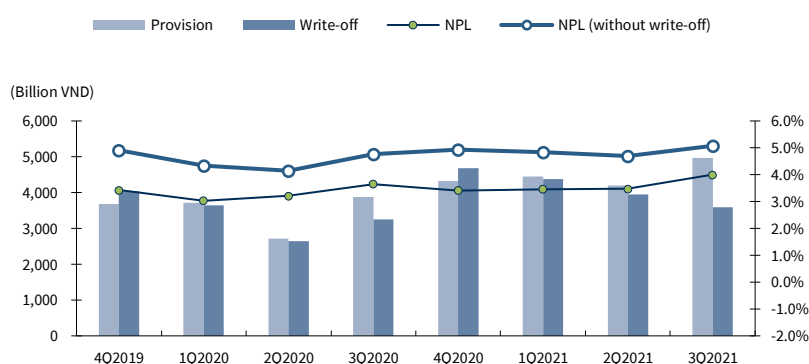
Fig 8. VPB – NPL structure (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

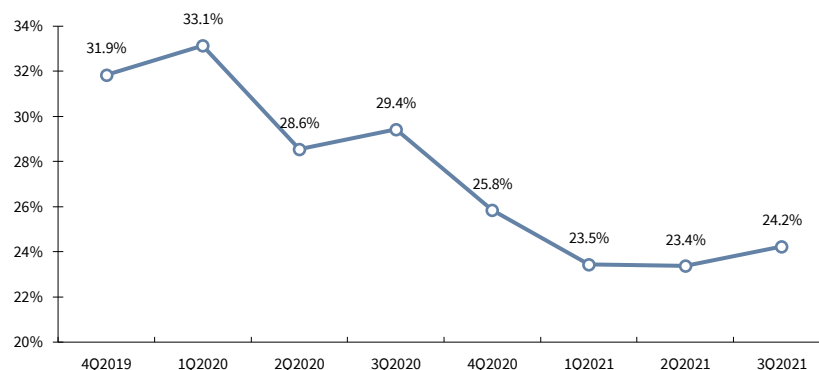
Fig 9. VPB – Provision (VNDbn, %)

Provision value and NPLs spiked in 3Q21, reflecting the impacts of the pandemic on asset quality



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 10. VPB – CIR (% QoQ)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

3Q cost to income ratio (CIR) gained 80bps QoQ but was lower than that of the previous period

VPB would record FE Credit divestment profit in 4Q21

At the end of April 2021, VPB officially sold 49% of FE Credit shares to SMBC Consumer Finance, a subsidiary of SMBC Group, one of the three largest banking and finance groups in Japan. The value of FE Credit at the time of capital sale was valued at USD2.8 billion, which may bring in USD1.4 billion for VPB. The bank has completed the procedures so that the profit cash flow can be recorded in early 4Q21, thereby significantly improving liquidity indicators and average input costs.

The bank raised charter capital to VND45,207 billion

On October 7, 2021, VPB issued more than 1.975 billion shares to pay dividends and bonus shares. The share dividend issue rate is 62.15%, and the share issuance rate from equity is 17.85%. The issued capital is deducted from undistributed earnings, raising the total charter capital to VND45,207 billion.

The progress of finding strategic partners is affected by the impact of the pandemic

As of December 17, 2021, VPB's foreign ownership rate was 17.48%, which is 12.52% than the maximum rate of 30% regulated by the State Bank. VPB has been looking for strategic shareholders since 2019, and the move to reduce the maximum foreign ownership to 15% is considered a step to welcome strategic shareholders. However, the complicated developments of the COVID-19 slowed down the progress of this deal. KBSV expects VPB's negotiating activities to be accelerated again in early 2022.

Forecast business results

KBSV forecasts VPB's business results in 2021–2022

We make a forecast for VPB in 2021 as follows:

- Credit growth may reach 13.2% in 2021, down 30bps from the previous period, reflecting more negative expectations for credit growth of FEcredit.
 - We estimate 2021 NIM would go down 34bps YoY to 8.35%, revised down 55bps from the old forecast to reflect a stronger-than-expected drop in FEcredit's NIM
 - NPL ratio should be 3.95%, up 54bps YoY
 - Provision expense is expected to reach VND19,161 billion, up 31.0% YoY or VND1,778 billion compared to the previous forecast, reflecting a sharp fall in bad debt quality in 3Q21.
 - We forecast 2021 earnings would reach VND13.245 billion, up 27.2% YoY but down 2.9% compared to the previous forecast.
- 2022F earnings are VND17,262 billion, up 30.3% YoY to reflect strong post-pandemic credit demand and improved asset quality.

Table 11. VPB – 2021–2022F business performance

	2020	2021F	2022F	% YoY 2021	% YoY 2022
Net interest income (VNDbn)	32,346	38,467	45,126	19%	17%
Net fee income (VNDbn)	3,356	5,376	6,170	60%	15%
Total operating income (VNDbn)	39,033	47,623	55,613	22%	17%
Provision for credit losses (VNDbn)	(14,622)	(19,161)	(20,410)	31%	7%
Net profit after taxes (VNDbn)	10,414	13,245	17,262	27.2%	30.3%
NIM	8.69%	8.35%	7.71%	-34bps	-64bps
Average interest rate	14.06%	12.05%	11.57%	-202bps	-48bps
Average deposit rate	5.93%	4.40%	4.60%	-153bps	20bps
CIR	29.2%	25.0%	24.5%	-419bps	-50bps
NPL	3.41%	3.95%	3.40%	54bps	-55bps
Total asset (VNDbn)	419,027	561,094	687,201	34%	22%
Owner Equity (VNDbn)	52,794	90,561	109,688	72%	21%

Source: KB Securities Vietnam

KBSV suggests BUYING VPB shares with the target price of VND41,600 per share

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

(1) P/B valuation method:

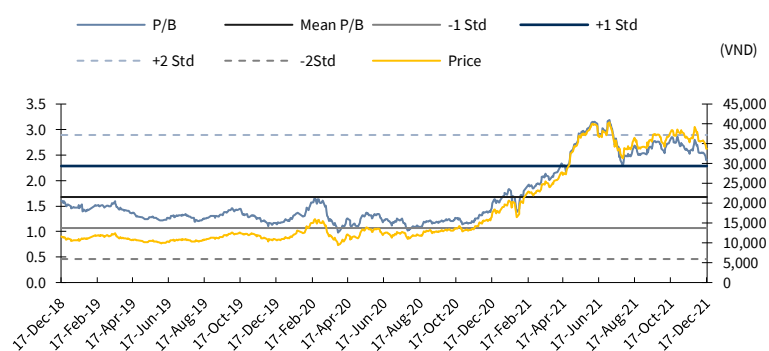
We adjust a forward P/B of 2.28x or std+1 of VPB's three-year average P/B.

(2) Residual income method (Table 13):

In addition, we incorporate the residual method of discounting to reflect systematic risks and long-term expectations.

Combining the two valuation methods above with a ratio of 50–50, we found the final fair price for VPB shares in 2022 at VND41,600/share, 23.1% higher than the price on December 17, 2021.

Fig 22. VPB – Share prices and P/B in 2017–2021 (VND, x)



Source: KB Securities Vietnam

Table 23. VPB – Residual income method

	2021F	2022F	2023F
Profit after taxes (VNDbn)	13,244.84	17,262.35	20,449.10
Excessed return (VNDbn)	6,867.38	6,322.53	7,198.85
Required rate of return (r)	12.08%		
Growth (g)	5.0%		
Terminal value	84,989		
Present value (PV)	169,589		
Price	VND37,514		

Source: KB Securities Vietnam

Table 34. VPB – Combination of two pricing methods & target price

Methods	Forecast price	Weight	Forecast price per weight
P/B	VND45,675	50%	VND22,837
Residual income	VND37,514	50%	VND18,757
Target price			VND41,600

Source: KB Securities Vietnam

VPB – 2018A–2022E financial data

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2018	2019	2020	2021F	2022F		2018	2019	2020E	2021F	2022F
Net interest income	24,702	30,670	32,346	38,467	45,126	Loans	218,395	253,100	286,319	323,262	396,348
Interest income	40,280	49,875	52,362	55,487	67,676	Marketable securities	4,202	1,567	493	5,934	8,024
Interest expense	(15,579)	(19,204)	(20,016)	(17,020)	(22,551)	Cash (ex. Reserves)	1,855	2,459	3,283	3,171	4,288
Fees & commissions	1,612	2,792	3,356	5,376	6,170	Interest earning assets	306,585	351,188	393,458	527,745	642,465
Other non-interest income	4,681	2,020	2,236	2,685	3,222	Fixed assets & other assets	19,512	27,797	26,853	37,068	46,885
Total operating income	31,086	36,356	39,033	47,623	55,613	Total assets	323,291	377,204	419,027	561,094	687,201
SG&A expenses	(10,634)	(12,344)	(11,392)	(11,906)	(13,625)	Customer deposits	170,851	213,950	233,428	248,178	335,578
Pre-provisioning OP	20,452	24,012	27,641	35,717	41,988	Borrowings & call money/repos	49,006	57,937	63,172	71,343	87,004
Provision for credit losses	(11,253)	(13,688)	(14,622)	(19,161)	(20,410)	Interest bearing liabilities	277,540	322,482	352,939	421,052	559,901
Other income	5,364	2,682	3,442	4,475	5,369	Other liabilities	10,671	12,220	13,107	49,243	17,400
Other expense	(683)	(663)	(1,206)	(1,790)	(2,148)	Total liabilities	288,541	334,994	366,233	470,532	577,587
Pre-tax income	9,199	10,324	13,019	16,556	21,578	Charter capital	25,300	25,300	25,300	45,207	45,207
Income tax expense	(1,843)	(2,064)	(2,606)	(3,311)	(4,316)	Capital surplus	1,289	693	366	366	366
NP	7,356	8,260	10,414	13,245	17,262	Retained earnings	5,187	11,806	17,415	26,796	41,587
Minority interest profit	-	-	-	(890)	(2,136)	Capital adjustments	-	-	-	-	-
Parent NP	7,356	8,260	10,414	12,355	15,126	Total shareholders' equity	34,750	42,210	52,794	90,561	109,688

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	22.8%	21.5%	21.9%	18.5%	17.2%	EPS	2,907	3,265	4,116	2,733	3,346
ROA	2.4%	2.4%	2.6%	2.7%	2.8%	BVPS	13,735	16,684	20,867	20,033	24,264
Pre-provision ROE	50.8%	49.9%	46.5%	39.9%	33.5%	Tangible BVPS	13,507	16,455	20,610	19,861	24,053
Pre-provision ROA	5.4%	5.5%	5.6%	5.8%	5.4%	Valuations					
Net interest margin (NIM)	8.7%	9.3%	8.7%	8.4%	7.7%	PER	20.8	18.6	14.7	22.2	18.1
Efficiency						PBR	4.4	3.6	2.9	3.0	2.5
Pure Loan to deposit ratio	129.9%	120.2%	124.6%	133.0%	120.0%	Dividend yield	0.0%	0.0%	0.8%	0.6%	0.8%
Cost-income ratio	34.2%	34.0%	29.2%	25.0%	24.5%	ROE	22.8%	21.5%	21.9%	18.5%	17.2%
Growth						Capital Adequacy					
Asset growth	16.4%	16.7%	11.1%	33.9%	22.5%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	21.7%	15.9%	13.1%	12.9%	22.6%	Asset Quality					
PPOP growth	26.8%	17.4%	15.1%	29.2%	17.6%	NPL ratio (substandard)	3.5%	3.4%	3.4%	4.0%	3.4%
Parent NP growth	14.2%	12.3%	26.1%	18.6%	22.4%	Coverage ratio (substandard)	45.9%	46.4%	45.3%	52.3%	46.3%
EPS growth	-29.1%	12.3%	26.1%	-33.6%	22.4%	NPL ratio (precautionary)	8.8%	8.2%	8.6%	11.5%	9.2%
BVPS growth	-27.4%	21.5%	25.1%	-4.0%	21.1%	Coverage ratio (precautionary)	18.4%	19.4%	18.0%	18.0%	17.1%

Source: Vietnam Prosperity Bank, 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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