

Vietcombank (VCB)

Maintain good operating results

December 1, 2022

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3Q22 NPAT climbed 32.2% YoY to VND6,069 billion on the back of credit growth and NIM expansion

NPL ratio reached 0.8% and LLCR was 411% in the third quarter

VCB's credit grew by 17.4% YTD by the end of September

VCB should be given a higher credit growth quota for 2023

We recommend HOLD for VCB with a target price of VND89,400/share

Vietcombank (VCB) unveiled positive business results for 3Q22 with net interest income (NII) of VND22,569 billion (+27.9% YoY), non-interest income (NOII) of VND3,050 billion (+7.3% YoY), and NPAT of VND6,069 billion (+32.2 YoY). The main driving force came from high credit growth of 21.0% YoY and NIM of 3.4%.

The NPL ratio in 3Q22 reached 0.8% (up 19 bps QoQ and down 37 bps YoY). VCB continued to boost provisioning during the period, and the loan loss coverage ratio (LLCR) hit 411% by the end of September.

9M22 credit growth reached 17.4% YTD. VCB still has 1.2% unused credit room after being granted extra room to lend twice by the State Bank of Vietnam (SBV).

We expect VCB will be rewarded with a high credit limit for 2023 thanks to: (1) VCB's good asset quality with outstanding value of corporate bonds accounting for a small proportion (1%); (2) taking over and restructuring a poor-performing bank; and (3) offering interest rate support packages at the request of the Government.

Based on valuation results, business outlook and possible risks, we recommend HOLD for VCB stocks. The target price is VND89,400/share, 11.8% higher than the closing price on December 1, 2022.

Hold update

Target price	VND 89,400
Upside/Downside	11.8%
Current price (Dec 1, 2022)	VND 80,000
Consensus target price	VND 91,300
Market cap (VNDbn)	378.1/15.4

Forecast earnings & valuation

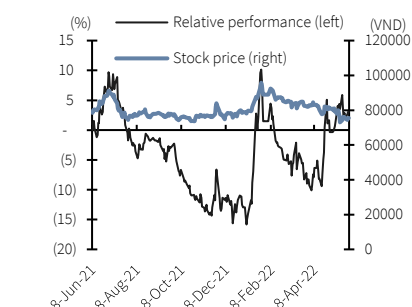
FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	36,285	42,400	50,414	57,197
Pre-provision operating profit (VNDbn)	33,024	39,149	45,749	51,153
NPAT of the parent bank (VNDbn)	18,451	21,919	26,583	31,142
EPS (VND)	4,975	5,116	5,617	6,250
EPS growth (%)	0%	3%	10%	11%
PER (x)	17.1	16.6	15.1	13.6
Book value per share (VND)	25,370	29,421	30,857	36,042
PBR 9x)	3.3	2.9	2.8	2.4
ROE (%)	21.1%	21.6%	20.9%	19.2%
Dividend yield (%)	0.9%	0.9%	0.9%	0.9%

Trading data

Free float	25.2%
3M avg trading value (VNDbn/USDmn)	87.4/3.6
Foreign ownership	6.4%
Major shareholder	State Bank (SBV) (74.8%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	11.4	1.8	4.6	2.2
Relative	7.5	18.8	19.2	31.9



Source: Bloomberg, KB Securities Vietnam

Business performance

3Q22 NPAT climbed 32.2% YoY to VND6,069 billion on the back of credit growth and NIM expansion

VCB posted 3Q22 positive results with NII of VND22,569 billion (+27.9% YoY) and NOI of VND3,050 billion (+7.3% YoY), taking total operating income (TOI) to VND16,714 billion (+26.1% YoY). Accordingly, NPAT touched VND6,069 billion, up 32.0% from the low base of 3Q21. After the first nine months of 2022, NPAT reached VND19,979 billion (+29.1% YoY).

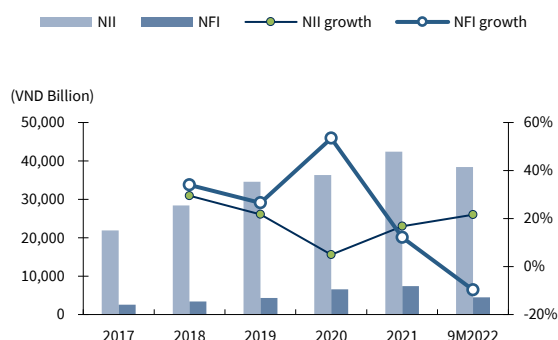
VCB recorded 9M22 credit growth of 17.4% YTD, with 1.2% left after being granted extra room to lend twice by the SBV

In 3Q22, total outstanding loans hit VND1,141,460 billion (+21.0% YoY, +2.6% QoQ), with customer loans up 2.7% QoQ and 20.7% YoY and outstanding value of corporate bonds making up 1% only. By the end of 3Q22, credit grew by 17.4% YTD. The SBV loosened VCB's credit quota in September (+2.7%) and October (+0.9%), given its good asset quality, small share of corporate bonds, and the takeover of a weak bank.

3Q22 NIM improved thanks to VCB capitalizing on low cost of funds

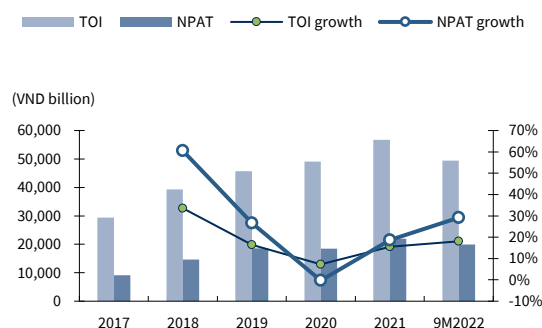
NIM expanded by 6bps QoQ to 3.4% in the third quarter (Figure 3) thanks to low cost of funds. Specifically, the average cost of funds was up 15bps QoQ to 2.3% thanks to the CASA ratio reaching 34.9% (down 50bps QoQ but higher than the 2021 average of 33%) (Figure 4).

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



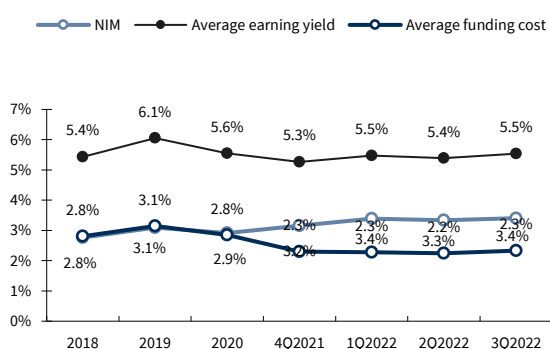
Source: Vietcombank, KB Securities Vietnam

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



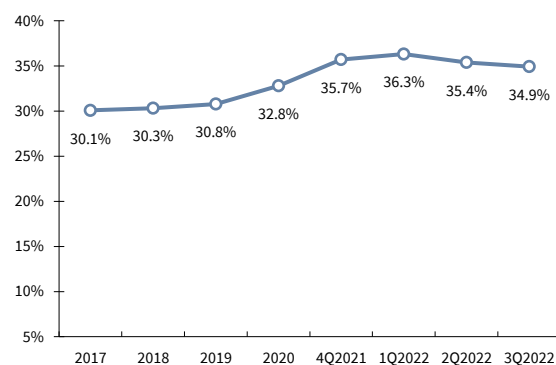
Source: Vietcombank, KB Securities Vietnam

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



Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – CASA ratio (%)

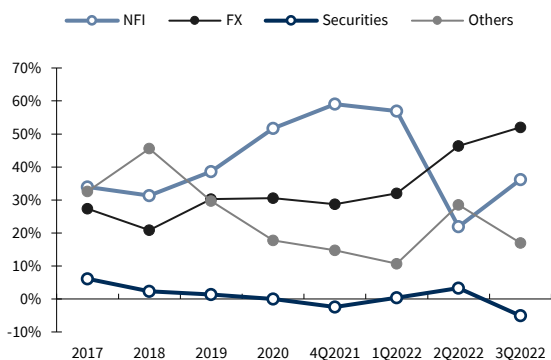


Source: Vietcombank, KB Securities Vietnam

3Q22 NOII reached VND10,983 billion, up 7.3% YoY

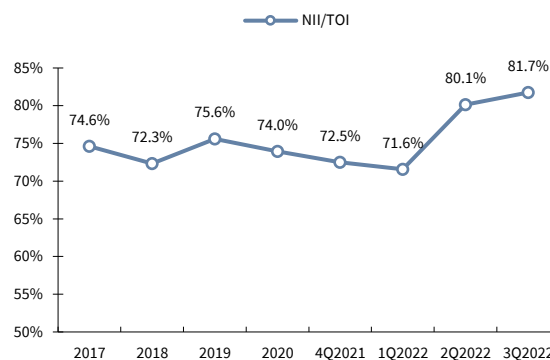
Net fee income (NFI) in 3Q22 reached VND1,102 billion (+58.7% QoQ, -2.0% YoY). VCB adopted zero-fee policy, so NFI was flat YoY. VCB still maintained its competitive advantage in the foreign exchange market with net income from foreign exchange reaching VND1,587 billion (+35.3% YoY). For 9M22, NOII hit VND10,983 billion (+7.3% YoY).

Fig 5. VCB – NOII breakdown (%)



Source: Vietcombank, KB Securities Vietnam

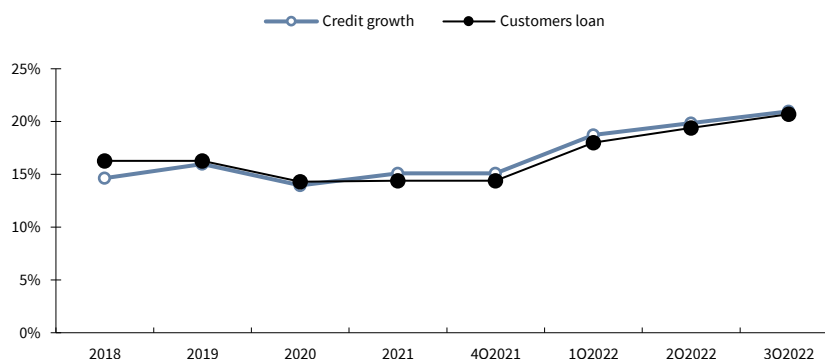
Fig 6. VCB – NII/TOI (%)



Source: Vietcombank, KB Securities Vietnam

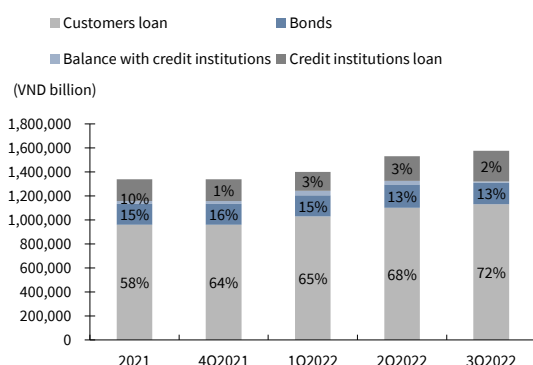
Fig 7. VCB – Credit growth (%)

3Q22 credit growth reached 17.4% YTD, nearing the credit growth ceiling granted by SBV.



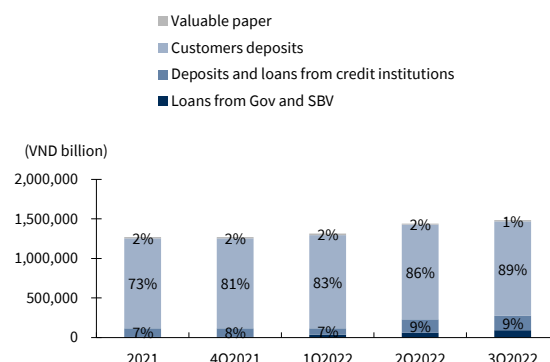
Source: Vietcombank, KB Securities Vietnam

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



Source: Vietcombank, KB Securities Vietnam

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



Source: Vietcombank, KB Securities Vietnam

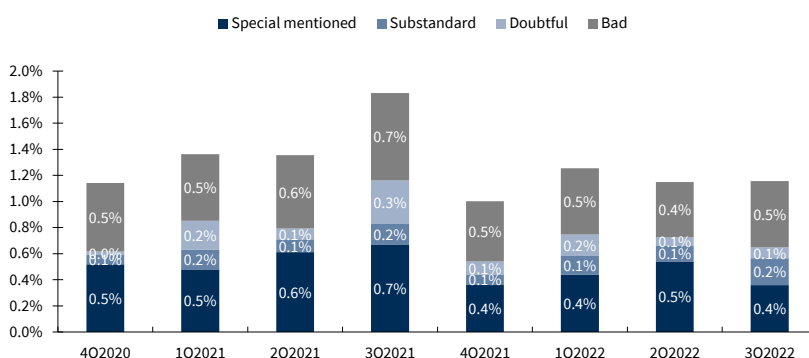
VCB is among banks with the best asset quality and the NPL ratio below 1.0%

The NPL ratio in 3Q22 was up 19 bps QoQ and down 37 bps YoY to 0.8%. Still, VCB was among banks with the highest LLCR, reaching 410.7%. This will help VCB downplay the risk of a sharp increase in provision expenses in the future, which could adversely dampen profits.

We assess VCB's asset quality to be among the best in the banking system, with its NPL ratio staying below 1.0% (Figure 10) and that VCB made full provisions for restructured loans in 2021, thereby pushing growth in 2022.

NPL ratio in 3Q22 remained stable below 1%.

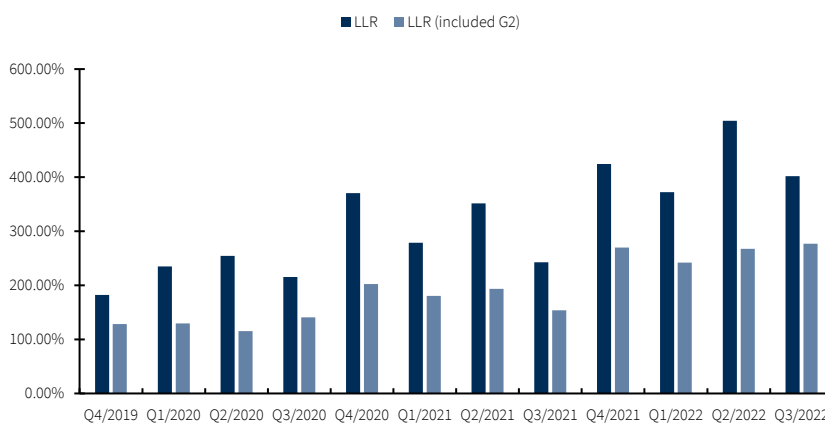
Fig 10. VCB – Groups of debt (%)



Source: Vietcombank, KB Securities Vietnam

VCB boosted provisioning with the highest LLCR in the banking system, reaching 402%.

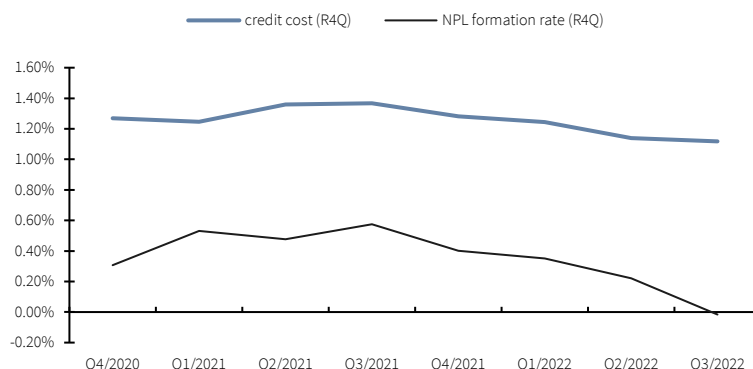
Fig 11. VCB – Loan loss coverage ratio (%)



Source: Vietcombank, KB Securities Vietnam

Credit cost decreased slightly and provision for credit losses remained high.

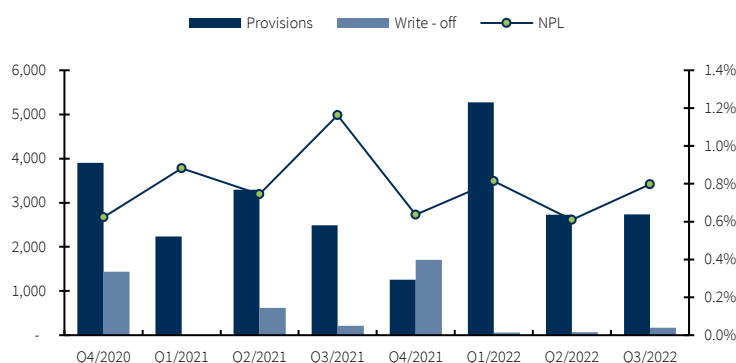
Fig 12. VCB – Credit cost, customer loans (%)



Source: Vietcombank, KB Securities Vietnam

VCB continued to accelerate provisioning in line with strong credit growth. However, the bank did not record write-offs in the first nine months of the year.

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

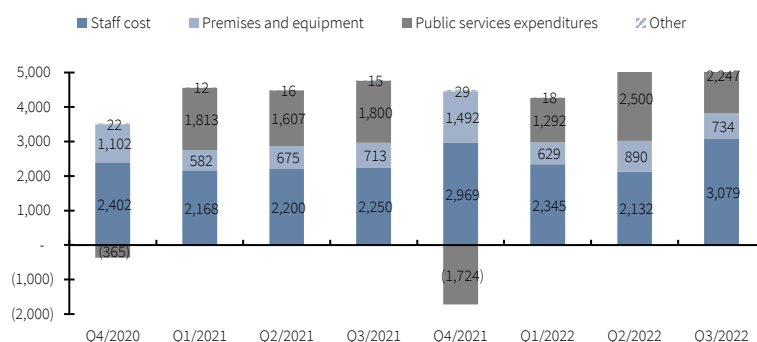


Source: Vietcombank, KB Securities Vietnam

CIR surged QoQ to 38.1% due to a sharp rise in staff cost

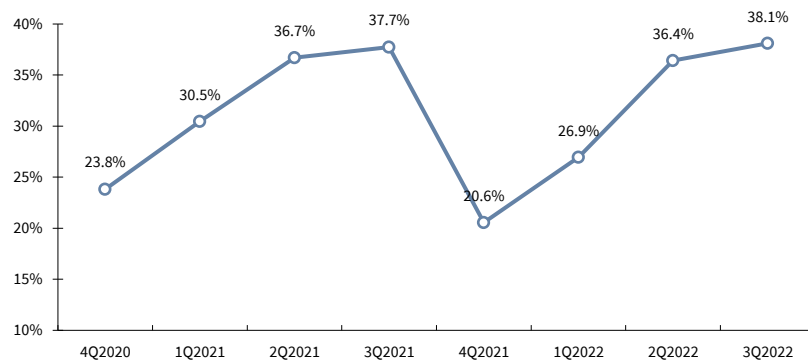
General and administrative expenses (G&A) reached VND6,370 billion (+9.5% QoQ and +27.4% YoY) due to a sharp rise in staff cost (+44.0% QoQ). Accordingly, CIR surged QoQ to 38.1%, but VCB is still among banks with the lowest CIR in the industry.

Fig 14. VCB – Operating expenses (VNDbn)



Source: Vietcombank, KB Securities Vietnam

Fig 15. VCB – CIR (%)



Source: Vietcombank, KB Securities Vietnam

Business performance

2022F business results

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

- Credit should grow by 18.6% instead of 18.0% for the whole year of 2022, as VCB was approved a new credit limit in October.
- We reduce 2022F NIM from 3.35% to 3.29%, with the expectation that VCB's CASA will remain high. However, VCB will have to experience higher cost of funds as liquidity is no longer as abundant as in 2021. Besides, VCB announced that it would cut lending interest rates by 1% for various loans, except real estate, securities, mortgage, etc in November and December 2022.
- Non-interest income may increase slightly by 14.3% YoY thanks to bancassurance revenue growth and foreign exchange dealings.
- The NPL ratio is expected to remain at 1.0% thanks to VCB's good asset quality and high LLCR.
- Provisioning expense should increase marginally year-over-year to VND12,487 billion, reflecting VCB's cautiousness in making provisions for credit losses due to recent instabilities in the real estate and corporate bond markets.
- We forecast NPAT to reach VND26,610 billion, up 16.2% YoY.

2023F business results

We forecast VCB's 2023F NPAT at VND31,173 billion (+17.1% YoY) based on:

- Credit growth should reach 15.0%.
- NIM decreases by 13bps YoY due to pressures to raise deposit rates to control inflation and stabilize the exchange rate and VCB's interest rate support packages at the request of the Government.
- Provision expense is expected to be flat YoY at VND12,187 billion, given possible risks related to real estate and the corporate bond market.

Table 1. VCB – 2022–23F business results

	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	42,400	50,414	57,197	19%	13%
Net fee and commission income	7,407	7,494	7,988	1%	7%
Total operating income	56,724	66,787	74,676	18%	12%
Provision expense	(11,761)	(12,487)	(12,187)	6%	-2%
Profit after tax	21,939	26,610	31,173	21.3%	17.1%
NIM	3.15%	3.29%	3.16%	14bps	-13bps
Average earnings yield	5.26%	5.79%	5.85%	53bps	5bps
Average cost of funds	2.30%	2.76%	3.00%	46bps	24bps
CIR	31.0%	31.5%	31.5%	52bps	0bps
NPL	0.64%	1.00%	1.00%	36bps	0bps
Total assets	1,414,673	1,691,715	1,956,349	20%	16%
Equity	109,117	145,830	179,347	34%	23%

Source: KB Securities Vietnam

**We recommend HOLD for VCB
with a target price of VND89,400**

We use the P/B valuation method to find a fair price for VCB stocks. We expect VCB will be given a higher credit growth quota on its high 2022F earnings growth combined with good asset quality and leading position in the industry. However, VCB failed to raise the charter capital through a private placement, so we lower VCB's 2022F target P/B from 3.1x to 2.9x due to concerns over the negative impacts of rising inflation and interest rate hikes on the banking industry, equivalent to VCB's 5-year average P/B (Figure 16).

Therefore, we recommend HOLD for VCB stock with a target price of VND89,400/share, 11.8% higher than the price on December 1, 2022. We assess VCB a good stock to invest in the medium and long term.

Fig 16. VCB – P/B (x)



VCB – 2019A–2023F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2019	2020	2021	2022F	2023F		2019	2020	2021	2022F	2023F
Net interest income	34,577	36,285	42,400	50,414	57,197	Loans	724,290	820,545	934,774	1,111,638	1,276,892
Interest income	67,724	69,205	70,749	88,757	105,834	Marketable securities	1,801	1,954	2,766	1,482	1,704
Interest expense	(33,147)	(32,920)	(28,349)	(38,344)	(48,638)	Cash (ex. Reserves)	13,778	15,095	18,012	19,778	22,745
Fees & commissions	4,307	6,607	7,407	7,494	7,988	Interest earning assets	1,191,721	1,301,421	1,386,624	1,677,268	1,943,399
Other non-interest income	3,070	1,800	2,393	2,558	2,558	Fixed assets & other assets	31,067	30,595	39,941	35,771	39,943
Total operating income	45,730	49,063	56,724	66,787	74,676	Total assets	1,222,719	1,326,230	1,414,673	1,691,715	1,956,349
SG&A expenses	(15,818)	(16,038)	(17,574)	(21,038)	(23,523)	Customer deposits	928,451	1,032,114	1,135,324	1,318,546	1,516,328
Preprovisioning OP	29,913	33,024	39,149	45,749	51,153	Borrowings & call money/repos	21,404	21,307	17,395	15,191	17,391
Provision for credit losses	(6,790)	(9,975)	(11,761)	(12,487)	(12,187)	Interest bearing liabilities	1,115,838	1,198,181	1,271,945	1,509,888	1,735,791
Other income	3,428	2,545	3,100	3,410	3,410	Other liabilities	25,998	33,954	33,610	35,998	41,212
Other expense	(358)	(744)	(707)	(853)	(853)	Total liabilities	1,141,836	1,232,135	1,305,555	1,545,886	1,777,002
Pre-tax income	23,122	23,050	27,389	33,262	38,966	Charter capital	37,089	37,089	37,089	47,325	49,825
Income tax expense	(4,596)	(4,577)	(5,450)	(6,652)	(7,793)	Capital surplus	4,995	4,995	4,995	4,995	4,995
NP	18,526	18,473	21,939	26,610	31,173	Retained earnings	26,055	36,650	48,434	74,910	105,927
Minority interest profit	(15)	(21)	(20)	(133)	(156)	Capital adjustments	-	-	-	-	-
Parent NP	18,511	18,451	21,919	26,476	31,017	Total shareholders' equity	80,883	94,095	109,117	145,830	179,347

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%	20.9%	19.2%	EPS	4,991	4,975	5,116	5,595	6,225
ROA	1.6%	1.4%	1.6%	1.7%	1.7%	BVPS	21,808	25,370	29,421	30,815	35,996
Pre-provision ROE	33.9%	30.2%	30.9%	28.7%	25.2%	Tangible BVPS	21,198	24,527	28,592	30,130	35,353
Pre-provision ROA	2.1%	2.1%	2.3%	2.4%	2.2%	Valuations					
Net interest margin (NIM)	3.1%	2.9%	3.2%	3.3%	3.2%	PER	17.0	17.1	16.6	15.2	13.6
Efficiency						PBR	3.9	3.3	2.9	2.8	2.4
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%	31.5%	31.5%	ROE	25.9%	21.1%	21.6%	20.9%	19.2%
Growth						Capital Adequacy					
Asset growth	13.8%	8.5%	6.7%	19.6%	15.6%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	16.5%	13.3%	13.9%	18.9%	14.9%	Asset Quality					
PPOP growth	16.5%	10.4%	18.5%	16.9%	11.8%	NPL ratio (substandard)	0.8%	0.6%	0.6%	1.0%	1.0%
Parent NP growth	26.7%	-0.3%	18.8%	20.8%	17.1%	Coverage ratio (substandard)	176.3%	368.0%	424.4%	309.4%	320.8%
EPS growth	22.9%	-0.3%	2.8%	9.4%	11.3%	NPL ratio (precautionary)	1.1%	1.0%	1.0%	1.7%	1.7%
BVPS growth	26.2%	16.3%	16.0%	4.7%	16.8%	Coverage ratio (precautionary)	122.3%	239.8%	270.0%	182.0%	188.7%

Source: Company reports, KB Securities Vietnam

Source: Vietcombank, 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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