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3Q23 PBT reached 9,051 billion VND (+19.6% YoY)

TOI of Vietcombank (VCB) dropped 5.6% YoY to VND15,777 billion mainly due to weak NII (-7.8% YoY). VCB's PBT gained 19.6% YoY to VND9,051 billion, 9M23 accumulated profit completed 69% of the 2023 target and kept the bank leading position in the banking system.

Credit should grow towards the end of 2023 and sustainably increase in 2024

Credit growth should reach 8.5% in 2023, doubling the increase in the first three quarters thanks to (1) accelerated disbursement of public capital in the last quarter and 2) higher credit demand during holidays. We believe that credit growth potential of the bank will become clearer in 2024 when the economy shows positive signs and is expected to strongly rebound next year.

NIM is expected to remain stable thanks to improved COF

NIM should be stable in 4Q given (1) accelerated credit growth that helps the bank allocate profitable assets more efficiently and 2) improved costs of fund (COF) on maturing deposits with high interest rates.

VCB has a solid backup buffer

The LLCR of VCB is still at the highest level in the industry (270%), which will allow VCB to be flexible in reducing provisions and supporting profits in the last quarter of the year and next year.

We recommend BUY for VCB with a target price of VND109,600/share

Using two valuation methods P/B and residual income discount, we give the target price for 2024 of VCB shares at VND109,600/share, 28.6% higher than the price on December 7, 2023, and a BUY recommendation.

Buy maintain

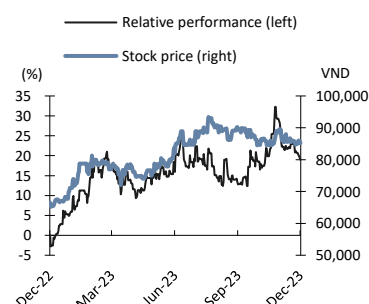
Target price	VND109,600
Upside	28.6%
Current price (Dec 7, 2023)	VND85,200
Consensus target price	VND99,200
	476,749/19.63

Trading data	
Free float	25.2%
3M avg trading value (VNDbn/USDmn)	94.64/3.9
Foreign ownership	23.5%
Major shareholder	State Bank (SBV) (74.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.5	-4.8	3.7	30.7
Relative	-7.1	5.5	2.6	22.4

Forecast earnings & valuation

(VNDbn)	2021	2022	2023F	2024F
Net interest income (VNDbn)	42,400	53,246	56,821	66,210
PPOP (VNDbn)	39,149	46,832	50,958	58,748
NPAT-MI (VNDbn)	21,939	29,919	33,574	39,094
EPS (VND)	5,910	6,318	6,003	6,564
EPS growth (%)	19%	7%	-5%	9%
PER (x)	14.5	13.5	14.2	13.0
Book value per share (VND)	29,421	28,663	29,031	38,503
PBR (x)	2.90	2.98	2.94	2.22
ROE (%)	21.6%	24.4%	22.5%	20.0%
Dividend yield (%)	1.41%	0.00%	1.41%	1.41%



Source: Bloomberg, KB Securities Vietnam

3Q23 performance updates

3Q23 PBT reached 9,051 billion VND (+19.6% YoY)

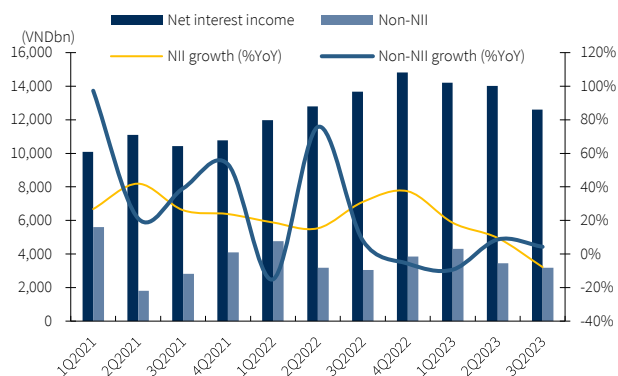
TOI dropped 5.6% YoY to VND15,777 billion mainly due to weak NII (-7.8% YoY). Provision costs saw a sharper decrease of -46% YoY, and operating costs also declined 17.9% YoY. Accordingly, VCB's PBT still recorded high growth, reaching VND9,051 billion (+19.6% YoY), and 9M23 accumulated profit completed 69% of the 2023 target and kept the bank leading position in the banking system. Loan loss coverage ratio (LLCR) surged to 1.21%, which is still the highest in the industry.

Table 1. VCB – 3Q23 results

	3Q22	2Q23	3Q23	+/-% QoQ	+/-% YoY	KBSV's notes
Net interest income (VNDbn)	13,664	14,021	12,596	-10.2%	-7.8%	3Q NII decreased mainly due to poor credit growth and narrowing NIM. As of the end of 3Q23, credit growth of VCB only reached 3.8% YTD, much lower than the growth rate of the entire economy at ~7%. 9M NII still increased by 6.2% YoY thanks to the high average earnings yield compared to the previous year.
Non-interest income (VNDbn)	3,050	3,450	3,181	-7.8%	4.3%	NFI decreased by 45.1% QoQ because the bank has not recorded revenue from prepaid insurance premiums (expected to be recorded in 4Q23). The positive point is that the FX segment increased by 6.8% QoQ and was almost flat YoY. Other incomes (mainly from bad debt settlement) rose 101.7% QoQ or 33.7% YoY.
Total operating income (VNDbn)	16,714	17,470	15,777	-9.7%	-5.6%	
Operating expenses (VNDbn)	(6,370)	(5,656)	(5,233)	-7.5%	-17.9%	
CIR (%)	38.1%	32.4%	33.2%	+0.8ppts	-4.9ppts	
Provision costs (VNDbn)	(2,778)	(2,536)	(1,494)	-41.1%	-46.2%	In 3Q, the bank proactively reduced provisioning to support profits with the advantage of a solid provision buffer accumulated from previous quarters. In 9M23, provision costs fell 22.3% YoY.
Profit before taxes (VNDbn)	7,566	9,278	9,051	-2.4%	19.6%	
Profit after taxes (VNDbn)	6,069	7,428	7,275	-2.1%	19.9%	
Credit growth (%)	17.4%	2.8%	3.8%	+1ppts	-13.6ppts	Credit growth only reached 3.8% YTD, lower than other state-owned banks (BID +8.4% YTD and CTG +8.7% YTD). Outstanding customer loans accounted for 99% of total credit, growing 3.9% YTD thanks to corporate customer loans (+7.2% YTD). Of that, FDI grew 22% YTD. Retail lending was flat with the shift from home lending to other sectors.
Deposit growth (%)	5.1%	5.9%	7.5%	+1.7ppts	+2.4ppts	Customer deposits steadily increased by 8.5% YTD, while interbank loans and valuable paper issuance continued to decline.
NIM (%)	3.40%	3.28%	3.13%	-16bps	-28bps	NIM narrowed 16bps QoQ as average earnings yield saw a steeper fall than COF (-21bps vs -5bps respectively) because (1) VCB proactively cutting interest rates and slow credit growth caused asset yields to fall sharply; and (2) customer deposits maintained an upward momentum while mobilization from lower-cost sources (such as government debt and interbank channel) stayed quite low compared to the previous period, causing COF to decline slowly.
NPL ratio (%)	0.80%	0.83%	1.21%	+38bps	+41bps	NPL ratio rose 38bps QoQ to 1.21% due to some changes in loan groups of corporate customers. However, the LLCR still leads the system at 270%.

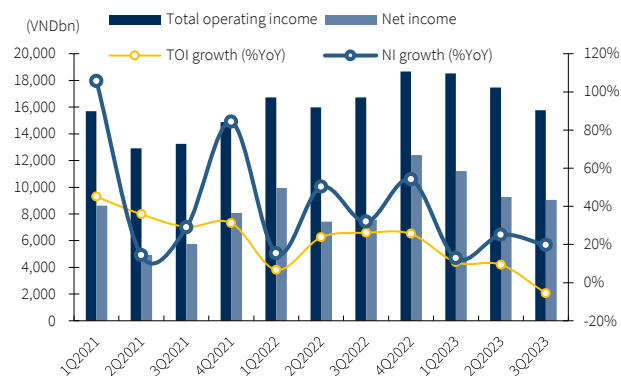
Source: Vietcombank, KB Securities Vietnam

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



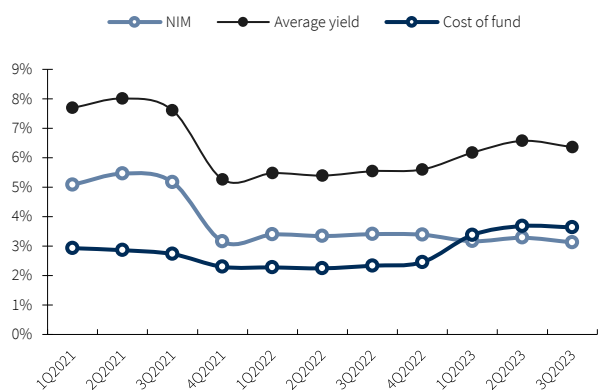
Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – TOI & PBT (VNDbn)



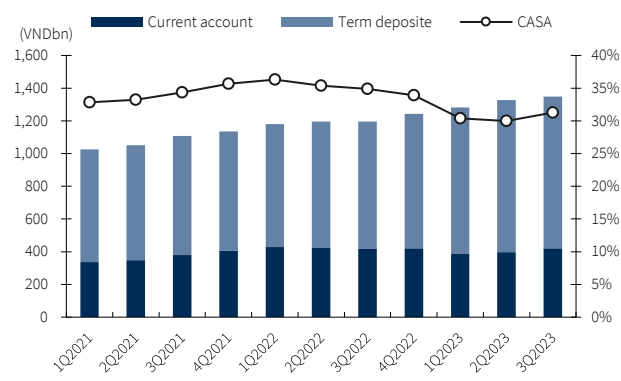
Source: Vietcombank, KB Securities Vietnam

Fig 3. VCB – NIM by quarter (%)



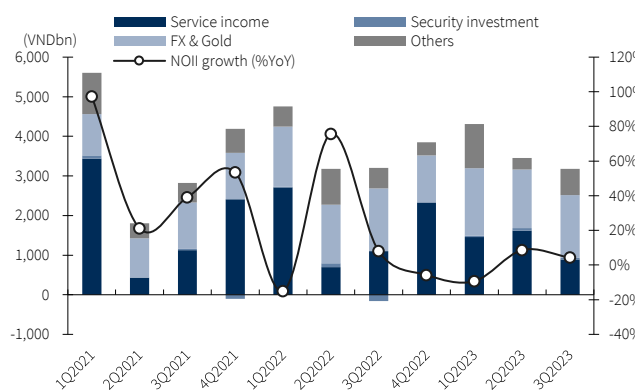
Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – CASA ratio by quarter (%)



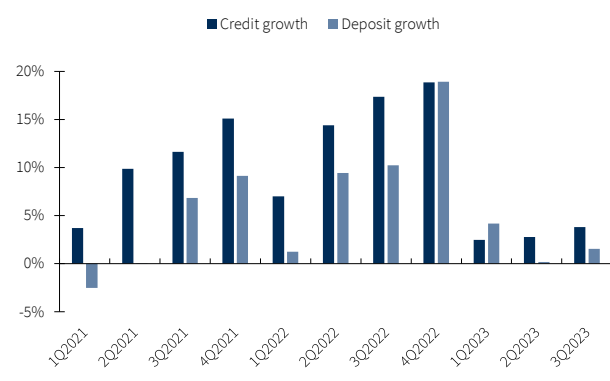
Source: Vietcombank, KB Securities Vietnam

Fig 5. VCB – NFI structure



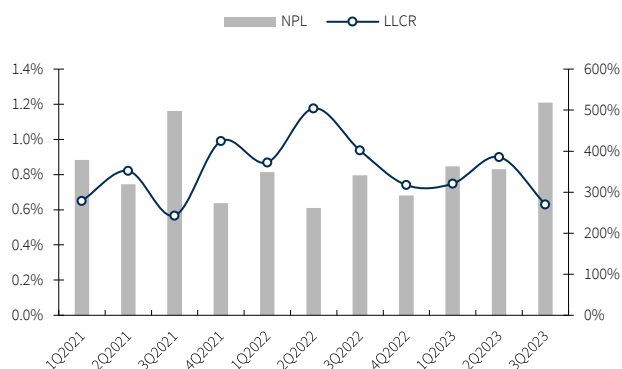
Source: Vietcombank, KB Securities Vietnam

Fig 6. VCB – Credit & deposit growth by quarter (%)



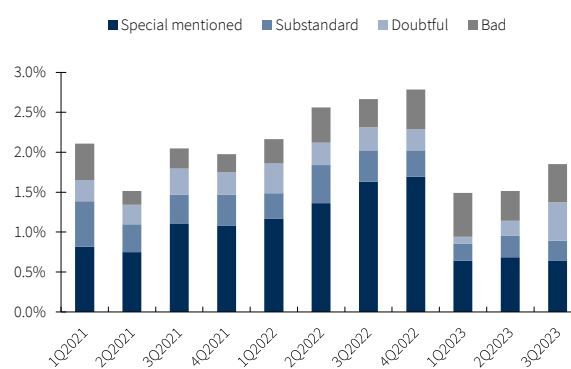
Source: Vietcombank, KB Securities Vietnam

Fig 7. VCB – NPL & LLCR (%)



Source: Vietcombank, KB Securities Vietnam

Fig 8. VCB – Loan groups



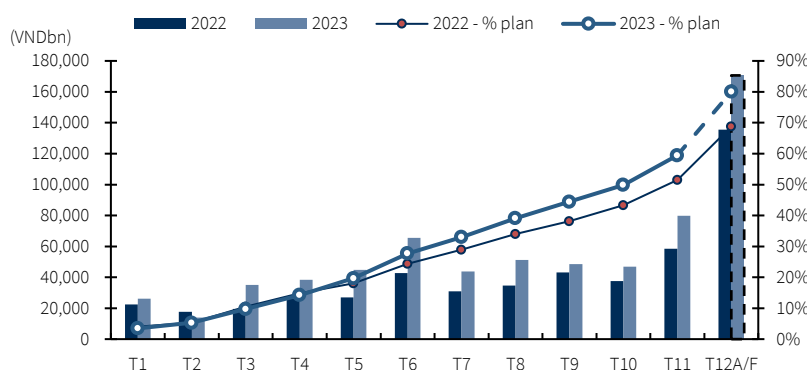
Source: Vietcombank, KB Securities Vietnam

Credit should grow towards the end of 2023 and sustainably increase in 2024

VCB still keeps a cautious sentiment when it comes to lending activities, so its credit grew by a mere of 3.8% YTD at the end of 3Q (+1ppts QoQ). Therefore, we lower our forecast for VCB 2023 credit growth to 8.5%, doubling the three-quarter increase thanks to the potential for acceleration at the end of the year: (1) Disbursement of public investment capital is often accelerated in the last quarter of the year, so VCB can take advantage of being one of the Government's main capital channels to expand lending subjects. In addition, (2) credit demand usually increases towards the end of the year as this is the time for holidays. The bank also reduced its 2023 credit growth target to 10% and expressed its determination to complete the target in 4Q.

We believe that the credit growth potential of the bank will become clearer in 2024 when the economy shows positive signs and is expected to strongly rebound next year. The import-export situation is warming up, and FDI into Vietnam is growing strongly, which will boost the need for loans to serve the production and business activities of enterprises. Besides, VCB is a state-owned bank with low interest rates, which is a competitive advantage to raise lending in a warming economy. Accordingly, we forecast that credit growth for 2024 will reach 14% from this year's low base.

Fig 9. Vietnam – Disbursement of public capital in 2022-2023 (VNDbn)



Source: Ministry of Finance, KB Securities Vietnam

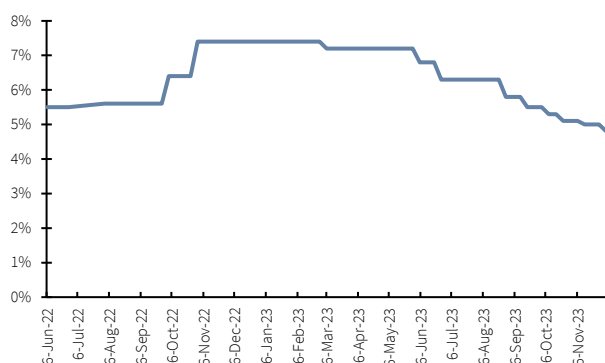
NIM is expected to remain stable thanks to improved COF

NIM of VCB considerably decreased in 3Q because the bank proactively cut lending interest rates to support businesses. Besides, deposit growth is stronger than credit, creating abundant cash in the system, so the bank had to allocate it to interbank loans with low interest rates. However, we expect NIM to remain stable in 4Q given ((1) accelerated credit growth that helps the bank allocate profitable assets more efficiently and 2) improved costs of fund (COF) on maturing deposits with high interest rates (6M-1Y deposits in the period 4Q22 - 1Q23 will mature at the end of this year). Besides, the bank is also actively lowering deposit interest rates given excess liquidity, which will partly support COF.

VCB has a solid backup buffer

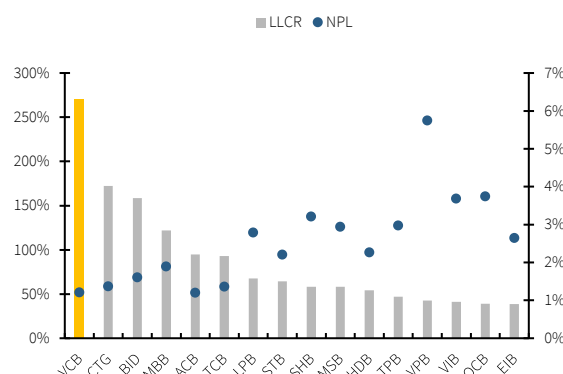
VCB's asset quality declined slightly when NPL increased by 38bps QoQ to 1.21%, ranking second after ACB. However, the LLCR of VCB is still at the highest level in the industry (270%), which will allow VCB to be flexible in reducing provisions and supporting profits in the last quarter of the year and next year. This is said to be a solid buffer for the bank to promote growth when the economy gradually recovers. The bank's outstanding loan balance under Circular 02 is relatively low at about VND1,600 billion (equivalent to 0.13% of total credit).

Fig 10. VCB – 12M credit growth



Source: Vietcombank, KB Securities Vietnam

Fig 11. Vietnam – LLCR & NPL of banks



Source: KB Securities Vietnam

Forecast & valuation

Table 2. VCB – 2023–2024F results

	2022	2023F	+/-%YoY 2023	2024F	+/-%YoY 2024	KBSV's notes
Net interest income (VNDbn)	53,246	56,821	6.71%	66,210	16.52%	The forecast for NII is lowered compared to the previous report because we reduced our NIM assumption to 23bps.
Net fee income (VNDbn)	6,839	7,679	12.28%	8,216	7.00%	
Total operating income (VNDbn)	68,083	74,392	9.27%	86,394	16.13%	
Provision costs (VNDbn)	(9,464)	(8,991)	-5.00%	(9,881)	9.91%	We increased our forecast for risk provision expenses to ~11.3% due to bad debt increasing more strongly than expected. However, asset quality still ranks second in the industry, and a solid provision buffer is the basis for VCB to reduce provisioning in the last quarter of the year.
Profit after taxes (VNDbn)	29,919	33,574	12.22%	39,094	16.44%	Thus, the forecast for NPAT is also degraded mainly because NII and asset quality are contrary to our expectations.
NIM (%)	3.38%	3.12%	-27bps	3.28%	+16bps	NIM remains stable thanks to expected improvement in capital costs.
Average earnings yields (%)	5.60%	6.07%	+47bps	5.86%	-21bps	
Average COF (%)	2.45%	3.30%	+85bps	2.92%	-39bps	
CIR (%)	31.21%	31.50%	+29bps	32.00%	+50bps	
NPL (%)	0.68%	1.20%	+52bps	1.15%	-5bps	
Total assets (VNDbn)	1,813,815	1,914,132	5.53%	2,205,701	15.23%	
Owner equity (VNDbn)	135,646	162,259	19.62%	229,186	41.25%	

Source: KB Securities Vietnam

Valuation: BUY recommendation – target price VND109,600

We combine two valuation methods, P/B and residual income discount, to find a reasonable price for VCB shares.

(1) P/B valuation method:

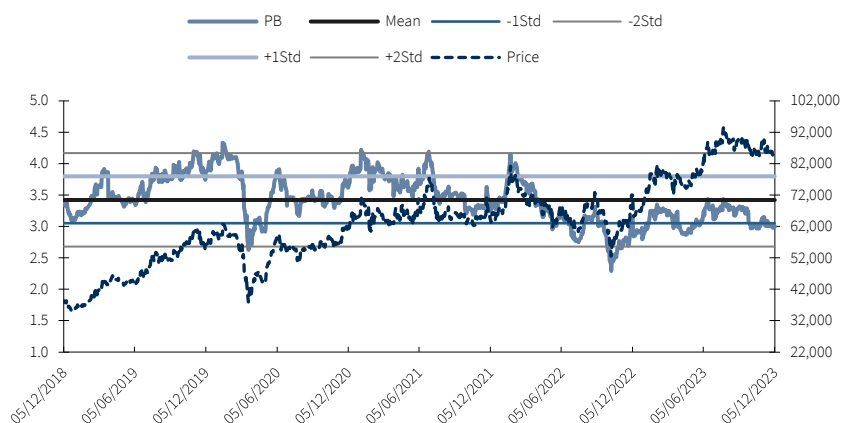
Currently, VCB stock price is trading at P/B 3.2x. With the potential credit growth in 2024, we expect VCB's 2024 target P/B to be 3.4x, equivalent to the average P/B from 2018 to the present.

(2) Residual income method:

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

Combining the above two valuation methods with a 50–50 ratio, we adjust the target price for 2024 of VCB shares to VND109,600/share, 28.6% higher than the closing price on December 7, 2023.

Fig 12. VCB – P/B & stock price (x, VND)



Source: Bloomberg, KB Securities Vietnam

Table 3. VCB – Valuation according to residual income model

(VNDbn)	2024F	2025F	2026F	2027F	2028F
NPAT	39,094	43,986	53,264	60,978	
Excessed return	19,697	16,589	21,039	22,816	
Required rate of return (Re)	11.95%				
Growth (g)	5%				
Terminal value	174,354				
Total present value (PV)	493,316				
VCB's share price	88,265				

Source: KB Securities Vietnam

Table 4. VCB – Final valuation

Valuation method	Forecast price	Weight	Weighted price
Residual income	88,265	50%	44,132
P/B	130,911	50%	65,456
Target price			VND109,600

Source: KB Securities Vietnam

VCB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	36,285	42,400	53,246	56,821	66,210	Loans	820,545	934,774	1,120,287	1,212,792	1,383,112
Interest income	69,205	70,749	88,113	110,556	118,464	Marketable securities	1,954	2,766	1,500	1,742	1,963
Interest expense	(32,920)	(28,349)	(34,866)	(53,735)	(52,254)	Cash (ex. Reserves)	15,095	18,012	18,349	21,615	24,365
Fees & commissions	6,607	7,407	6,839	7,679	8,216	Interest earning assets	1,301,421	1,386,624	1,759,898	1,883,929	2,157,414
Other non-interest income	1,800	2,393	2,054	2,023	1,832	Fixed assets & other assets	30,595	39,941	71,157	50,365	70,581
Total operating income	49,063	56,724	68,083	74,392	86,394	Total assets	1,326,230	1,414,673	1,813,815	1,914,132	2,205,701
SG&A expenses	(16,038)	(17,574)	(21,251)	(23,433)	(27,646)	Customer deposits	1,032,114	1,135,324	1,243,468	1,411,815	1,591,385
Pre-provisioning OP	33,024	39,149	46,832	50,958	58,748	Borrowings & call money/repos	21,307	17,395	25,341	28,518	31,997
Provision for credit losses	(9,975)	(11,761)	(9,464)	(8,991)	(9,881)	Interest bearing liabilities	1,198,181	1,271,945	1,568,635	1,683,363	1,898,216
Other income	2,545	3,100	2,928	2,784	2,497	Other liabilities	33,954	33,610	109,534	68,511	78,299
Other expense	(744)	(707)	(874)	(760)	(666)	Total liabilities	1,232,135	1,305,555	1,678,169	1,751,873	1,976,515
Pre-tax income	23,050	27,389	37,368	41,968	48,867	Charter capital	37,089	37,089	47,325	55,891	59,524
Income tax expense	(4,577)	(5,450)	(7,449)	(8,394)	(9,773)	Capital surplus	4,995	4,995	4,995	4,995	36,362
NP	18,473	21,939	29,919	33,574	39,094	Retained earnings	36,650	48,434	60,733	79,013	110,940
Minority interest profit	(21)	(20)	(20)	(22)	(24)	Capital adjustments	85	87	88	88	88
Parent NP	18,451	21,919	29,899	33,552	39,070	Total shareholders' equity	94,095	109,117	135,646	162,259	229,186

Financial Indicators						Valuation					
(%)	2020	2021	2022	2023F	2024F	(VND, X, %)	2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	21.1%	21.6%	24.4%	22.5%	20.0%	EPS	4,975	5,910	6,318	6,003	6,564
ROA	1.4%	1.6%	1.9%	1.8%	1.9%	BVPS	25,370	29,421	28,663	29,031	38,503
Pre-provision ROE	30.2%	30.9%	30.6%	27.4%	24.0%	Tangible BVPS	24,527	28,592	28,068	28,527	38,029
Pre-provision ROA	2.1%	2.3%	2.3%	2.2%	2.3%	Valuations					
Net interest margin (NIM)	2.9%	3.2%	3.4%	3.1%	3.3%	PER	17.2	14.5	13.5	14.2	13.0
Efficiency						PBR	3.4	2.9	3.0	2.9	2.2
Pure Loan to deposit ratio	81.4%	84.6%	92.1%	88.0%	89.0%	Dividend yield	0.7%	1.4%	0.0%	1.4%	1.4%
Cost-income ratio	32.7%	31.0%	31.2%	31.5%	32.0%	ROE	21.1%	21.6%	24.4%	22.5%	20.0%
Growth						Capital Adequacy					
Asset growth	8.5%	6.7%	28.2%	5.5%	15.2%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	13.3%	13.9%	19.8%	8.3%	14.0%	Asset Quality					
PPOP growth	10.4%	18.5%	19.6%	8.8%	15.3%	NPL ratio (substandard)	0.6%	0.6%	0.7%	1.2%	1.2%
Parent NP growth	-0.3%	18.8%	36.4%	12.2%	16.4%	Coverage ratio (substandard)	368.0%	420.5%	309.3%	198.1%	204.0%
EPS growth	-0.3%	18.8%	6.9%	-5.0%	9.3%	NPL ratio (precautionary)	1.0%	1.0%	1.0%	1.8%	1.8%
BVPS growth	16.3%	16.0%	-2.6%	1.3%	32.6%	Coverage ratio (precautionary)	239.8%	267.6%	203.2%	132.2%	134.0%

Source: 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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