

# VPBank (VPB)

## Funding costs should improve in 2024

November 16, 2023

 Manager Nguyen Anh Tung  
 tungna@kbsec.com.vn

### 3Q23 PBT touched VND3,117 billion, down 30.9% YoY

For 3Q23, Vietnam Prosperity Bank (VPB) delivered net interest income (NII) of VND8,837 billion (+2.9% QoQ, +21.8% YoY) on total operating income (TOI) of VND11,262 billion (-11.9% QoQ, -16.4% YoY). Provisions were VND4,950 billion (-23.7% QoQ, -8.7% YoY), making PBT reach VND3,117 billion (+19.3% QoQ, -30.9% YoY). For 9M23, NII recorded VND27,133 billion (down 11.7% YoY), and PBT touched VND8,279 billion, down 58.3% YoY.

### Funding costs should improve in 2024

KBSV expects VPB's funding costs to improve in 2024, supported by (1) the maturity of 4Q22-1Q23 term deposits with high interest rates; (2) ample liquidity, low deposit interest rates; and (3) improved CASA on rising corporate loans.

### NIM may not recover strongly as the average earnings yield will be revised down

However, NIM may not recover strongly in the first half of 2024 when the average earnings yield is still under enormous pressure because: (1) banks cut lending interest rates to increase competitiveness and boost loan growth; (2) retail lending, which used to contribute significantly thanks to high earnings yield, has now slowed; (3) potential risks come from rising investments in real estate.

### We recommend BUY for VPB with a target price of VND24,500/share

Basing on valuation results, business prospects, and possible risks, we reiterate our BUY rating for VPB. Our expected target price for 2024F is VND24,500/share, 26.9% higher than the closing price as of November 15, 2023.

## Buy maintain

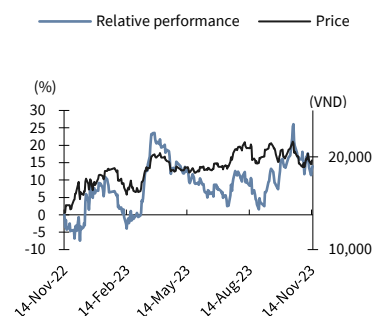
<b>Target price</b>	<b>VND24,500</b>
Upside	26.9%
Current price (Nov 15, 2023)	VND19,950
Consensus target price	VND26,606
Market cap (VNDbn/USDbn)	158,281/6.5

<b>Trading data</b>	
Free float	63.79
3M avg trading value (VNDbn/USDmn)	407/16.6
Foreign ownership	28.62
Major shareholder	SMBC (15.01%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	-2	2	9	33
<b>Relative</b>	-6	8	4	14

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	34,349	41,021	38,546	54,089
PPOP (VNDbn)	33,585	43,681	36,835	50,106
NPAT (VNDbn)	11,477	16,909	10,721	14,311
EPS (VND)	2,601	2,694	1,503	1,779
EPS growth (%)	-37%	4%	-44%	18%
PER (x)	7.7	7.4	13.3	11.2
Book value per share (VND)	19,149	15,349	18,176	19,955
PBR (x)	1.04	1.30	1.10	1.00
ROE (%)	16.5%	17.8%	8.7%	9.5%
Dividend yield (%)	0.00%	0.00%	5.05%	0.00%



Source: Bloomberg, KB Securities Vietnam

## Business performance

### 3Q23 PBT touched VND3,117 billion, down 30.9% YoY

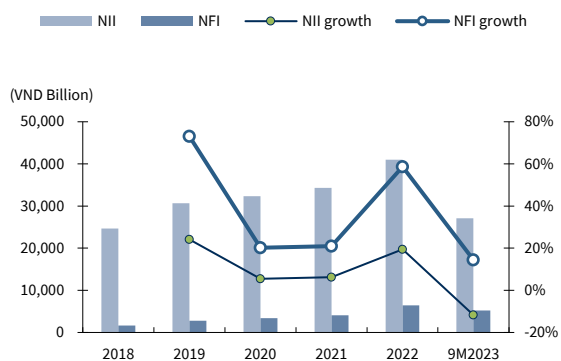
For 3Q23, VPB delivered net interest income (NII) of VND8,837 billion (+2.9% QoQ, +21.8% YoY) on total operating income (TOI) of VND11,262 billion (-11.9% QoQ, -16.4% YoY). Provisions were VND4,950 billion (-23.7% QoQ, -8.7% YoY), making PBT reach VND3,117 billion (+19.3% QoQ, -30.9% YoY). For 9M23, NII recorded VND27,133 billion (down 11.7% YoY), and PBT touched VND8,279 billion, down 58.3% YoY.

**Table 1. VPB – 3Q22–3Q23 business results**

(VNDbn)	3Q2022	2Q2023	3Q2023	+/-%QoQ	+/-%YoY	Comments
Net interest income (NII)	10,385	8,762	8,837	0.9%	-14.9%	Lower NII was primarily due to a sharp fall in NIM in the context of higher funding costs. Meanwhile, the earnings yield did not see a corresponding increase when there were new non-performing loans arising.
Net fee income	1,769	1,657	1,889	14.0%	6.8%	NFI growth was driven by settlement service fees (+42.8% YoY) while the bancassurance's contribution contracted by 26.5% YoY. These two segments account for 40% and 34% of NFI, respectively.
Other income	1,319	2,362	536	-77.3%	-59.4%	FX trading improved from previous quarters when recording a loss of VND64 billion in 3Q23, while investment & trading securities generated only VND101 billion, down 74.8% QoQ. Net other income slumped 60.4% QoQ and 58.2% YoY largely due to the decline in risk-resolved debt income (-16.4% QoQ, -56% YoY) while financial derivatives lost VND150 billion (vs. a profit of VND964 billion in 2Q23).
Total operating income (TOI)	13,473	12,782	11,262	-11.9%	-16.4%	
Operating expenses	(3,536)	(3,679)	(3,195)	-13.2%	-9.7%	
Pre-provision operating profit (PPOP)	9,937	9,103	8,067	-11.4%	-18.8%	
Provision expenses	(5,423)	(6,490)	(4,950)	-23.7%	-8.7%	Provisions showed signs of declining, mainly thanks to reduced provisions at FE Credit in the context of credit quality improving faster than expected.
NPAT	3,542	2,452	2,428	-1.0%	-31.5%	
Loan growth	15.1%	10.1%	17.1%	6.9 ppts	1.9 ppts	The parent bank's credit growth hit 22.2% (+7.1 ppts YoY) with the main motivation from corporate loans (+13.2% QoQ). Retail loans grew more slowly (+5.4% QoQ). Outstanding loans at FE Credit shrank by 17.9% YTD due to the strict control of risks related to bad debt handling and consumer loan disbursement.
Deposit growth	7.3%	20.9%	27.0%	6 ppts	19.6 ppts	Customer deposit growth was the key driver (+39.0% YTD). VPB enjoys the highest deposit growth in the entire banking system in 9M23, followed by Maritime Bank (MSB, +17.7% YTD) and HDBank (HDB, +22.6% YTD).
NIM	7.77%	5.70%	5.49%	-21 bps	-227 bps	NIM declined by 21bps QoQ as the funding costs increased, caused by high deposit interest rates in 3Q–4Q22. Meanwhile, the average earnings yield decreased further 10bps QoQ, partly due to asset quality deterioration that dampened interest income. CASA ratio reached 16.8%, up 184bps QoQ but still lower than 17.7% level at the end of 2022.
Average earnings yield	11.51%	11.47%	11.36%	-10 bps	-15 bps	
Average cost of funds	4.27%	6.58%	6.69%	10 bps	242 bps	
CIR	26.2%	28.8%	28.4%	-0.4 ppts	2.1 ppts	
NPL	5.02%	6.52%	5.74%	-78 bps	72 bps	The parent bank's NPL ratio reached 3.96%, up 8bps QoQ while FE Credit grew by 18.98%, down 455bps QoQ mainly thanks to promoting bad debt handling.

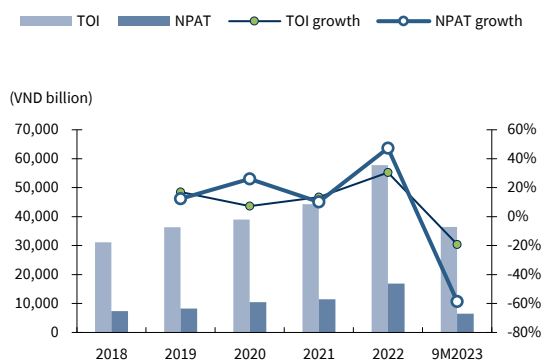
Source: Vietnam Prosperity Bank, KB Securities Vietnam

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



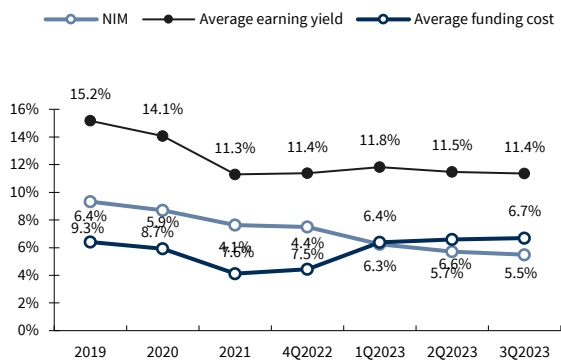
Source: Vietnam Prosperity Bank, KB Securities Vietnam

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



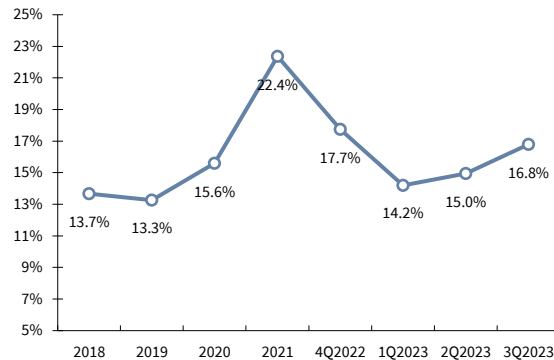
Source: Vietnam Prosperity Bank, KB Securities Vietnam

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



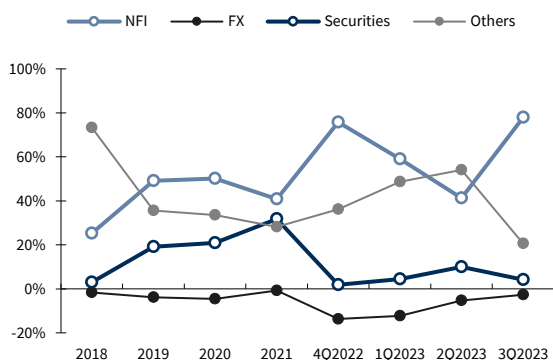
Source: Vietnam Prosperity Bank, KB Securities Vietnam

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



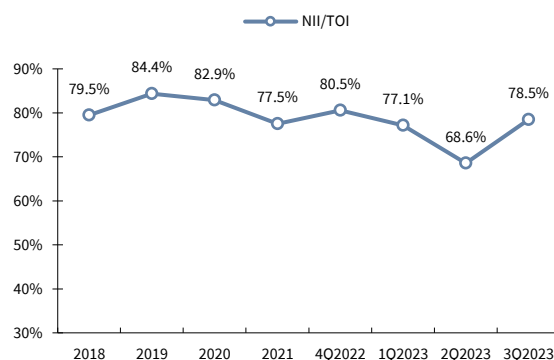
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 6. VPB – NOII breakdown in 2018–2023 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 7. VPB – NII/TOI (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

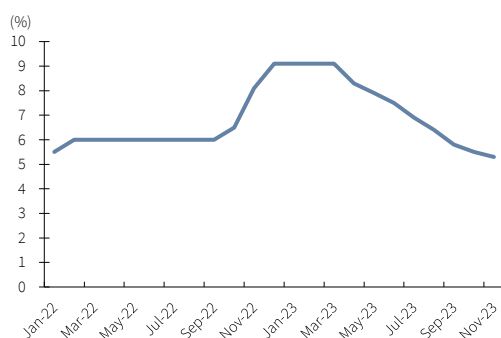
## Funding costs should improve in 2024

KBSV expects VPB's funding costs to improve in 2024 for the following reasons: (1) 4Q22-1Q23 12M term deposits will largely mature at the end of this year or early next year. High deposit interest rates (~9%) (Fig 6) explain why VPB's funding costs have surged since 1Q23.

(2) Liquidity is abundant, and deposit interest rates remain low. High deposit growth and moderate demand for loans resulted in ample liquidity, leading to VPB keeping low deposit interest rates. Currently, VPB's 12M term deposit interest rate is 5.3%/year, equivalent to that at the end of 2021 when VPB had the lowest average cost of funds (below 5%) (Fig 4).

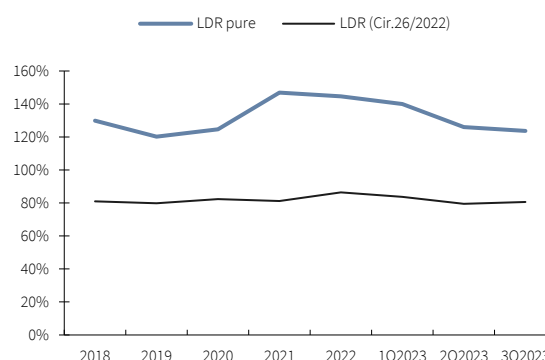
(3) CASA improves. In the context of reduced retail loan demand due to unfavorable macroeconomic conditions, VPB promoted corporate loans (+13.2% QoQ). Consumer loans previously contributed significantly but only grew by 5.4% QoQ in the third quarter of 2023. The CASA ratio of corporate customers is higher than that of individual customers since businesses usually leave demand deposits at their current accounts to serve working capital.

Fig 8. VPB – 12M deposit interest rate for less than VND3 million term deposits in 2022–2023 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 9. VPB – Loan-to-deposit ratio in 2018–2023 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

## NIM may not recover strongly as the average earnings yield will be revised down

However, NIM may not recover strongly in the first half of 2024 when the average earnings yield is still under enormous pressure:

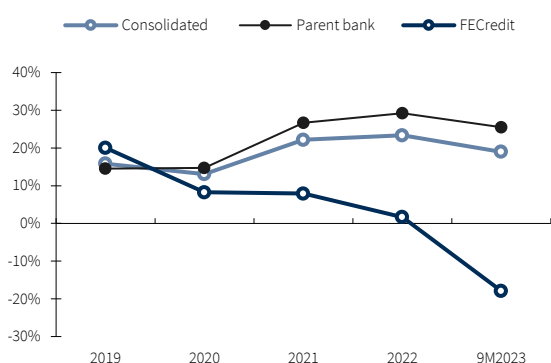
(1) Banks cut lending interest rates to increase competitiveness and boost credit growth. With a high capital adequacy ratio (CAR) and great ambition, VPB's management targets high credit growth in the coming period. Amid weak loan demand, VPB's lending interest rate cut to increase competitiveness is consistent with the development goals and current context of the entire banking industry.

(2) Retail lending, which used to contribute significantly thanks to high earnings yield, has now slowed. Personal loans made up 53.5% of total outstanding loans in 3Q23, down 5.2ppts YTD. In addition, the credit growth of FE Credit with high lending interest rates has stagnated (Fig 10), causing the average earnings yield to be lower than in previous periods.

(3) Potential risks come from rising investments in real estate projects. Since early 2023, VPB's outstanding loans to the property sector have expanded by VND30,599 billion (+45.3% YTD), accounting for 36.8% of VPB's total outstanding loan growth since the start of the year (Fig 11). Although this helps

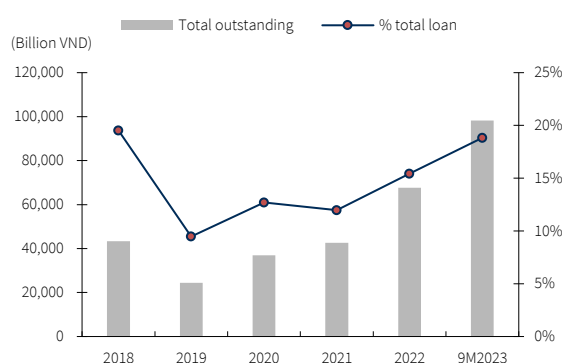
VPB maintain high credit growth, it also carries potential risks when the real estate market still faces liquidity and other severe problems, which may hamper future net interest income.

Fig 10. VPB – Consolidated credit growth, credit growth of the parent bank and FE Credit (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

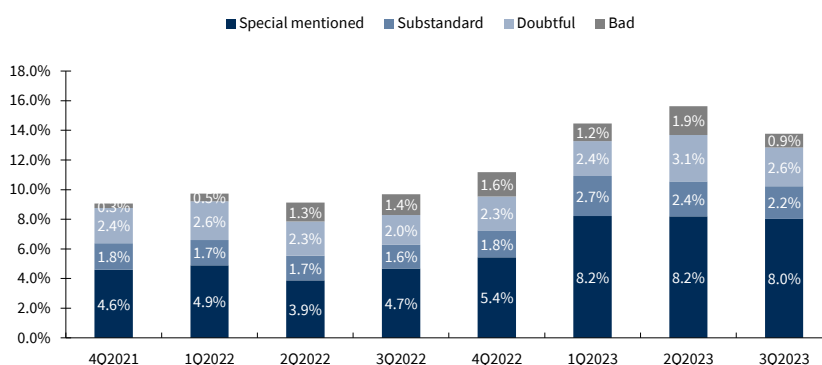
Fig 11. VPB – Outstanding loans to real estate and vs. total outstanding loans in 2018–2023 (VNDbn, %)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Asset quality improved with special mentioned and NPL ratio both declining after five consecutive quarters of increase. The NPL formation rate was 0.3%, a sharp fall compared to the previous six quarters (all above 1%).

Fig 12. VPB – Debt groups (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 13. Local banks – Special mentioned and NPL ratio (%)

	% NPL	QoQ	% Debt group 2	QoQ	Provision (billion VND)	LLCR
VPB	5.74%	-1.70%	8.03%	-0.16%	-12,768	42.7%
VIB	3.68%	0.05%	6.45%	0.03%	-3,739	41.4%
SHB	3.21%	0.19%	1.94%	-0.86%	-7,860	58.3%
TPB	2.97%	0.76%	3.77%	0.25%	-2,514	47.0%
MSB	2.94%	0.38%	3.25%	-0.15%	-2,415	58.2%
LPB	2.79%	0.36%	1.24%	-0.44%	-4,971	67.5%
HDB	2.26%	0.11%	5.04%	0.00%	-3,580	54.2%
STB	2.20%	0.41%	0.71%	-0.44%	-6,670	64.2%
EIB	2.12%	0.21%	1.46%	-0.26%	-319	74.0%
MBB	1.89%	0.44%	2.97%	-0.22%	-12,333	122.0%
BID	1.60%	0.00%	1.86%	-0.32%	-41,809	158.4%
CTG	1.37%	0.09%	2.37%	-0.21%	-32,661	172.4%
TCB	1.36%	0.29%	1.26%	-0.70%	-6,017	93.0%
VCB	1.21%	0.38%	0.64%	-0.44%	-38,872	270.1%
ACB	1.20%	0.23%	0.81%	-0.07%	-5,110	94.6%

Source: Local banks, KB Securities Vietnam

## Forecast & Valuation

**Table 14. VPB – 2022A–2024F business results**

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Net interest income	41,021	38,546	-6.0%	54,089	40.3%	NII for 2023F and 2024F is revised down 3.6% and 6.1% compared to the old projections due to changes in expectations about the recovery pace of NIM.
Net fee income	6,438	7,205	11.9%	9,901	37.4%	
Total operating income	57,797	51,160	-11.5%	68,638	34.2%	
Provision expenses	(22,461)	(23,433)	4.3%	(32,217)	37.5%	Provisions for 2023F and 2024F are revised down 19.3% and 18.5% compared to the old assumptions thanks to asset quality in 3Q23 improving better than expected.
NPAT	16,909	10,721	-36.6%	14,311	33.5%	
NIM	7.50%	5.78%	-172bps	6.69%	91bps	We lower our forecast for NIM in 2024 by 63bps compared to the old forecast, reflecting a more cautious view on VPB's NIM recovery in 2024.
Average earnings yield	11.37%	11.29%	-9bps	10.97%	-32bps	
Average cost of funds	4.43%	6.41%	198bps	4.97%	-144bps	
CIR	24.4%	28.0%	358bps	27.0%	-100bps	
NPL ratio	5.73%	5.70%	-3bps	5.50%	-20bps	We trim our forecast for NPL in 2024 by 90bps compared to the old projection thanks to better-than-expected control of asset quality along with VPB stepping up bad debt handling in 2024.
Total assets	631,013	804,857	27.6%	939,737	16.8%	
Equity	103,502	144,197	39.3%	158,308	9.8%	

Source: KB Securities Vietnam

### We recommend BUY for VPB with a target price of VND24,500/share

We combine two valuation methods, P/B (50% weighting) and residual income (50% weighting), to assess VPB's value.

#### (1) P/B method

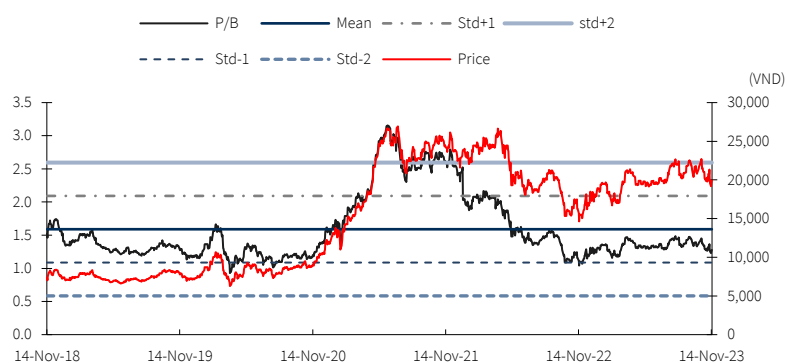
We maintain a 2023F P/B at 1.15x, equivalent to -1 standard deviation of VPB's 5-year average P/B due to concerns about the negative impacts of unclear economic outlook on VPB's asset quality in 2024.

#### (2) Residual income method (Table 14)

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

Combining the above two valuation methods, we recommend BUY for VPB with a target price for 2024F of VND24,500/share, 26.9% higher than the closing price as of November 15, 2023.

Fig 15. VPB – Historical P/B and share price performance in 2018–2023 (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 16. VPB – Residual income valuation

(VNDbn)	2023F	2024F	2025F
NPAT	10,721	14,314	18,102
Excessed return	-3,789	-6,015	-4,444
Required rate of return (r)	14.02%		
Growth (g)	5.0%		
Terminal value	48,349		
2024-end fair value	213,756		
<b>Value per share</b>	<b>26,944</b>		

Source: KB Securities Vietnam

Table 17. VPB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
P/B	21,982	50%	10,991
Residual income	26,944	50%	13,472
<b>Target price</b>			<b>24,500</b>

Source: KB Securities Vietnam

## VPB – 2020A–2024F financials

ENG 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	38,546	54,089	Loans	286,319	345,390	424,662	535,857	664,828
Interest income	52,362	50,827	62,200	75,319	88,727	Marketable securities	493	6,971	7,793	12,996	15,755
Interest expense	(20,016)	(18,478)	(21,179)	(36,774)	(34,638)	Cash (ex. Reserves)	3,283	2,346	2,658	3,862	4,682
Fees & commissions	3,356	4,059	6,438	7,205	9,901	Interest earning assets	393,458	506,371	587,418	747,146	870,175
Other non-interest income	2,236	2,808	10,584	5,306	4,515	Fixed assets & other assets	26,853	47,877	54,029	65,343	78,939
Total operating income	39,033	44,301	57,797	51,160	68,638	Total assets	419,027	547,409	631,013	804,857	939,737
SG&A expenses	(11,392)	(10,719)	(14,116)	(14,325)	(18,532)	Customer deposits	233,428	241,837	303,151	418,261	507,033
Pre-provisioning OP	27,641	33,583	43,681	36,835	50,106	Borrowings & call money/repos	63,172	81,400	63,762	69,496	85,290
Provision for credit losses	(14,622)	(19,219)	(22,461)	(23,433)	(32,217)	Interest bearing liabilities	353,126	446,310	509,092	638,346	754,592
Other income	3,442	5,469	13,017	8,423	6,639	Other liabilities	13,107	14,821	18,419	22,315	26,837
Other expense	(1,206)	(2,661)	(2,433)	(3,116)	(2,125)	Total liabilities	366,233	461,131	527,511	660,660	781,429
Pre-tax income	13,019	14,364	21,220	13,402	17,889	Charter capital	25,300	45,057	67,434	79,334	79,334
Income tax expense	(2,606)	(2,887)	(4,311)	(2,680)	(3,578)	Capital surplus	366	77	-	23,990	23,990
NP	10,414	11,477	16,909	10,721	14,311	Retained earnings	17,415	22,439	16,752	20,673	34,784
Minority interest profit	-	244	1,259	1,200	(200)	Capital adjustments	-	-	-	-	-
Parent NP	10,414	11,721	18,168	11,921	14,111	Total shareholders' equity	52,794	86,278	103,502	144,197	158,308

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	21.9%	16.5%	17.8%	8.7%	9.5%	EPS	4,116	2,601	2,694	1,503	1,779
ROA	2.6%	2.4%	2.9%	1.5%	1.6%	BVPS	20,867	19,149	15,349	18,176	19,955
Pre-provision ROE	46.5%	38.6%	36.8%	23.8%	26.5%	Tangible BVPS	20,610	19,003	15,225	18,070	19,852
Pre-provision ROA	5.6%	5.6%	5.9%	4.1%	4.6%	<b>Valuations</b>					
Net interest margin (NIM)	8.7%	7.6%	7.5%	5.8%	6.7%	PER	4.8	7.7	7.4	13.3	11.2
<b>Efficiency</b>						PBR	1.0	1.0	1.3	1.1	1.0
Pure Loan to deposit ratio	124.6%	146.9%	144.6%	131.0%	134.0%	Dividend yield	0.0%	0.0%	0.0%	5.1%	0.0%
Cost-income ratio	29.2%	24.2%	24.4%	28.0%	27.0%	ROE	21.9%	16.5%	17.8%	8.7%	9.5%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	11.1%	30.6%	15.3%	27.6%	16.8%	CAR	12.0%	14.3%	14.9%	>14%	>14%
Loan growth	13.1%	20.6%	23.0%	26.2%	24.1%	<b>Asset Quality</b>					
PPOP growth	15.1%	21.5%	30.1%	-15.7%	36.0%	NPL ratio (substandard)	3.4%	4.6%	5.7%	5.7%	5.5%
Parent NP growth	26.1%	12.6%	55.0%	-34.4%	18.4%	Coverage ratio (substandard)	45.3%	60.9%	54.4%	38.6%	39.1%
EPS growth	26.1%	-36.8%	3.6%	-44.2%	18.4%	NPL ratio (precautionary)	8.6%	9.3%	11.2%	13.2%	10.9%
BVPS growth	25.1%	-8.2%	-19.8%	18.4%	9.8%	Coverage ratio (precautionary)	18.0%	29.9%	27.9%	16.7%	19.7%

Source: Vietnam Prosperity Bank, KB Securities Vietnam



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

## Equity

### Banks, Insurance & Securities

Nguyen Anh Tung – Manager  
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst  
linhpp@kbsec.com.vn

### Real Estate, Construction & Materials

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

Nguyen Duong Nguyen – Analyst  
nguyennd1@kbsec.com.vn

### Retails & Consumers

Nguyen Truong Giang – Analyst  
giangnt1@kbsec.com.vn

### Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst  
anhntn@kbsec.com.vn

### Information Technology, Utilities

Nguyen Dinh Thuan – Analyst  
thuannd@kbsec.com.vn

### Oil & Gas, Chemicals

Pham Minh Hieu – Analyst  
hieupm@kbsec.com.vn

Research Division  
research@kbsec.com.vn

## Macro/Strategy

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

### Macroeconomics & Banks

Ho Duc Thanh – Analyst  
thanhd@kbsec.com.vn

Vu Thu Uyen – Analyst  
uyenvt@kbsec.com.vn

### Strategy, Investment Themes

Thai Huu Cong – Analyst  
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst  
tiens@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 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh 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](mailto:ccc@kbsec.com.vn)

Website: [www.kbsec.com.vn](http://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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.