

March 14, 2022

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In 2021, NPAT reached VND21,928 billion (+18.71% YoY) thanks to credit growth and stable NIM

For the whole year of 2021, Vietcombank (VCB) posted net interest income (NII) of VND42,387 billion (+16.8% YoY) and NPAT of VND 21,928 billion (+18.71% YoY), underpinned by credit growth of 15.1% YoY and NIM of 3.14%.

NPL ratio was 0.62% and LLCR reached 424%

NPL ratio in 4Q21 was down to 0.62% (-17 bps YoY and -39 bps QoQ). However, VCB still accelerated provisioning in 2021 with a loan loss coverage ratio (LLCR) of up to 424%.

Good asset quality, successful private placement, and high credit growth will be the key drivers for VCB's earnings growth in 2022

We believe that VCB's positive profit growth in 2022F will continue for the following reasons: (1) Good asset quality and high LLCR may reduce provisioning pressure; (2) the private placement plan, if successful, will improve CAR ratio and help VCB continue to expand credit growth; (3) NIM should decrease modestly thanks to CASA and optimized LDR; and (4) better cost control helps CIR decline marginally. KBSV forecasts credit growth of VCB at 13.8% and NPAT to increase by 19.2% YoY to VND26,137 billion in 2022F.

We recommended BUYING VCB shares with a target price of VND105,000/share

Based on valuation results, business outlook, and possible risks, we recommend BUYING VCB shares. The target price is VND105,000/share, 28.8% higher than the closing price on March 8, 2022.

Buy maintain

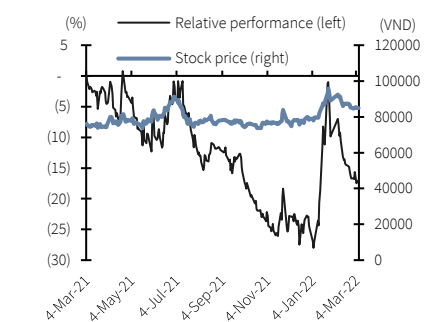
Target price	VND105,000
Upside/Downside	28.8%
Current price (Mar 8, 2022)	VND81,500
Consensus target price	VND95,900
Market cap (VNDbn)	394.2/17.3

Trading data	
Free float	25.2%
3M avg trading value (VNDbn/USDmn)	129.6/5.7
Foreign ownership	6.4%
Major shareholder	State Bank (74.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-7.7	9.8	9.1	11.3
Relative	-7.6	6.6	-2.4	-16.9

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	36,285	42,387	45,647	50,322
Pre-provision net operating income (VNDbn)	33,024	39,136	42,420	46,964
NPAT of the parent bank (VNDbn)	18,451	21,908	26,004	29,683
EPS (VND)	4,975	5,116	5,494	6,272
EPS growth (%)	0%	3%	7%	14%
PER (x)	17.1	16.6	15.5	13.5
Book value per share (VND)	25,370	29,974	31,147	37,419
PBR (x)	3.3	2.8	2.7	2.3
ROE (%)	21%	21%	20%	18%
Dividend yield (%)	1%	1%	1%	1%



Source: Bloomberg, KB Securities Vietnam

Updated business performance

In 2021, NPAT achieved VND21,928 billion, up 18.71% YoY

In 4Q21, VCB announced NII of VND10,781 billion (+3.8% YoY). Service fees were VND2,414 billion (-21.3% YoY) because VCB recorded the prepayment fee under bancassurance deals for both 3Q21 and 4Q21 instead of 4Q21 alone. TOI achieved only VND14,869 billion (+3.3% YoY) and NPAT hit VND6,457 billion (+13.8% YoY). Over the past year, VCB delivered VND42,387 billion (+16.8% YoY) in NII and VND21,928 billion (+18.71% YoY) in NPAT (Figure 1-2).

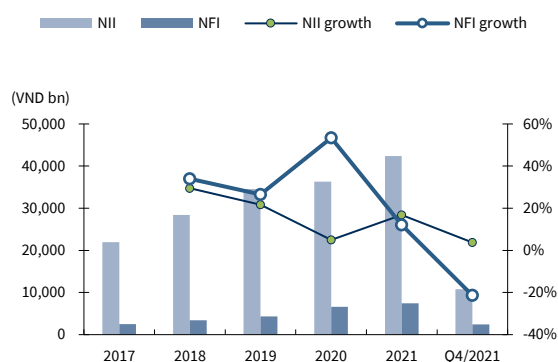
Credit growth expanded by 15.1% YoY and 3.1% QoQ

In 4Q21, outstanding loans continued to improve (+2.6% QoQ, +14.4% YoY) though outstanding corporate bonds contributed only 1.2% of the total credit, helping outstanding credit hit VND972,580 billion (+15.1% YoY, +3.1% QoQ).

4Q21 NIM stayed unchanged QoQ thanks to low capital cost

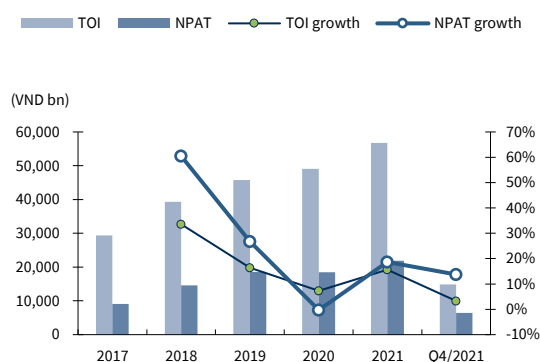
4Q21 NIM stood at 3.15% (-1 bps QoQ) (Figure 3) thanks to low capital cost given low deposit rates to offset the decrease in lending rates to support pandemic-hit businesses. Specifically, the average cost of funds was 2.3% (flat QoQ) thanks to improved CASA ratio of 32.9% (+104 bps QoQ) (Figure 4).

Fig 1. VCB – NII, service fees (VNDbn, %YoY)



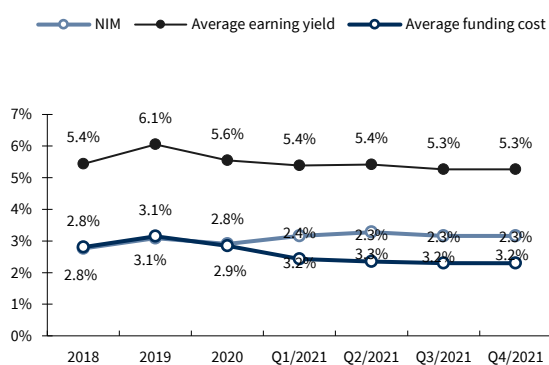
Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – TOI & NPAT (VNDbn, %YoY)



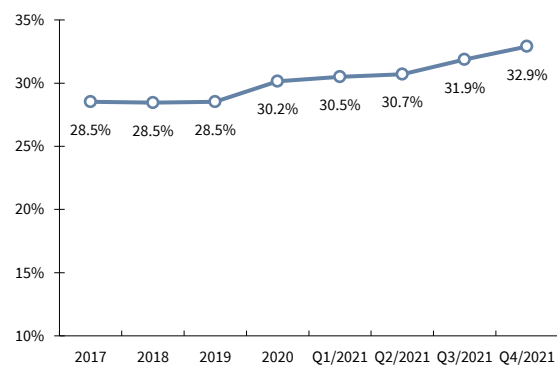
Source: Vietcombank, KB Securities Vietnam

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



Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – 2017A-2021A CASA (%)

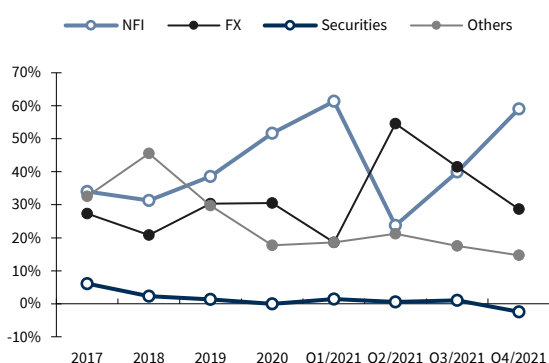


Source: Vietcombank, KB Securities Vietnam

4Q21 NOII was VND4,088 billion, up 25.7% YoY and 44.7% QoQ

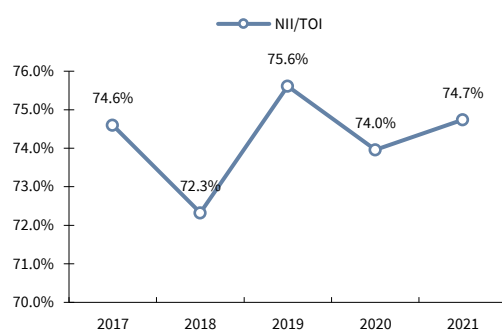
In the fourth quarter of 2021, service fees achieved VND2,414 billion (+114.2% QoQ, -21.3% YoY), supported by bancassurance; VCB still maintained its competitive advantage in the foreign exchange market with net gains of VND1,074 billion (+11.9% YoY). Besides, net other income reached VND570 billion (up strongly from a loss of VND 65 billion in 4Q20), helping NOII approach VND4,088 billion (+25.7% YoY, +44.7% QoQ). For 2021, non-interest income (NOII) hit VND12,774 billion (+14.5% YoY), backed by bancassurance and foreign currency trading. NII/TOI ratio has remained at around 72%-76% (Figure 6).

Fig 5. VCB – NOII (%)



Source: Vietcombank, KB Securities Vietnam

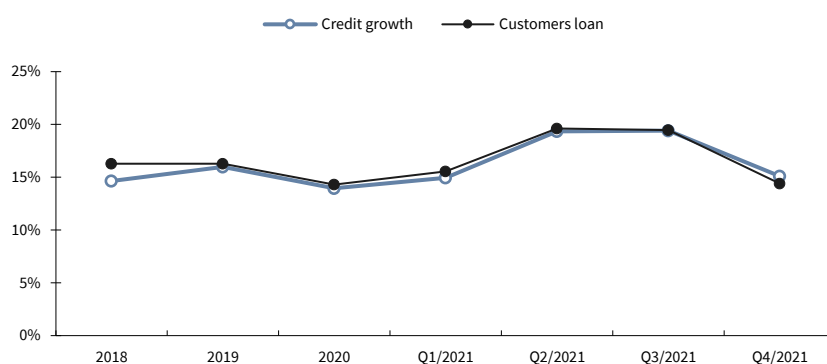
Fig 6. VCB – NII/TOI (%)



Source: Vietcombank, KB Securities Vietnam

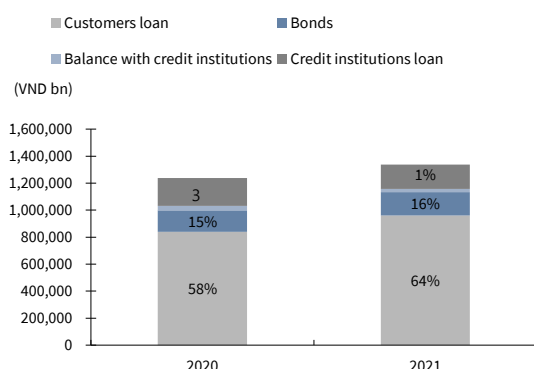
Credit growth expanded by 15.1% in 2021

Fig 7. VCB – 2018A–2021A credit growth and customer loans (% YoY)



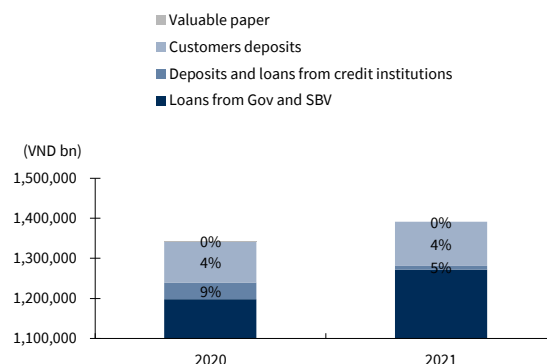
Source: Vietcombank, KB Securities Vietnam

Fig 8. VCB – Loans and bonds (VNDbn)



Source: Vietcombank, KB Securities Vietnam

Fig 9. VCB – Deposits (VNDbn)



Source: Vietcombank, KB Securities Vietnam

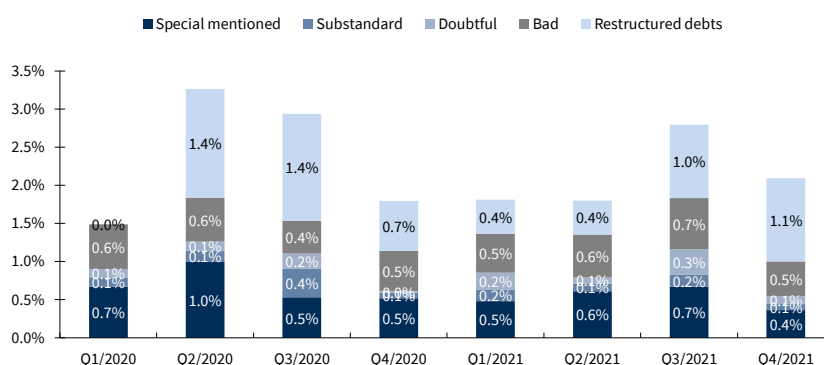
**NPL ratio in 4Q21 was 0.62%,
down 17 bps YoY and 39 bps QoQ**

NPL ratio was 0.62% (down 39 bps QoQ and down 17 bps YoY) in the fourth quarter of 2021, thanks to sharp decreases in substandard loans (down 79.6% QoQ) and doubtful debts (down 86.1% QoQ). VCB accelerated provisioning in 2021 with a loan loss coverage ratio of 424%, the highest over the past five years of VCB and in the banking system. By the end of 4Q21, restructured debts hit VND10.5 trillion, accounting for only 1.1% of the total outstanding loans. We find VCB's asset quality among the best in the banking system, with bad debts and special mention loans accounting for 1.0% of the outstanding loans (Figure 10).

Despite good asset quality and a low NPL ratio, VCB still boosted provisioning, with the loan loss reserve fund steadily increasing and being the highest in the whole system. It will help VCB reduce provisioning pressure and ensure earnings growth in the future.

Bad debts and special mention loans improved in 4Q21 after businesses reverted to normal operations following the fourth COVID wave in 3Q21

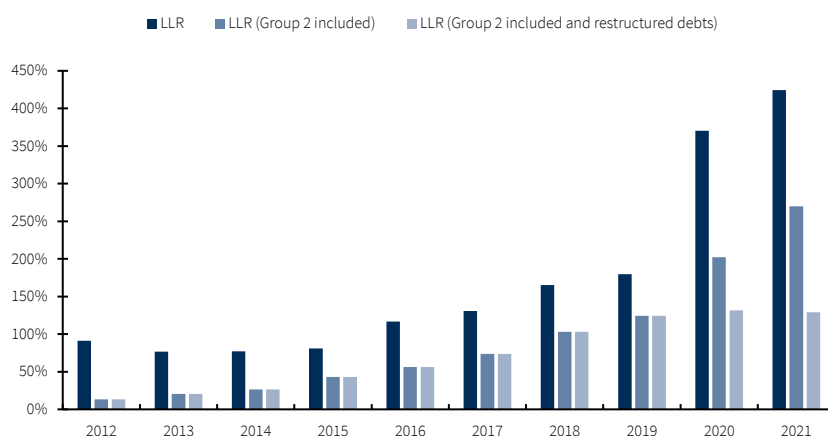
Fig 10. VCB – Special mention, substandard, doubtful, bad, restructured debts (%)



Source: Vietcombank, KB Securities Vietnam

LLR (Loan loss reserve) reached a record high of 424%, showing that VCB was cautious in making provisions to deal with bad debts

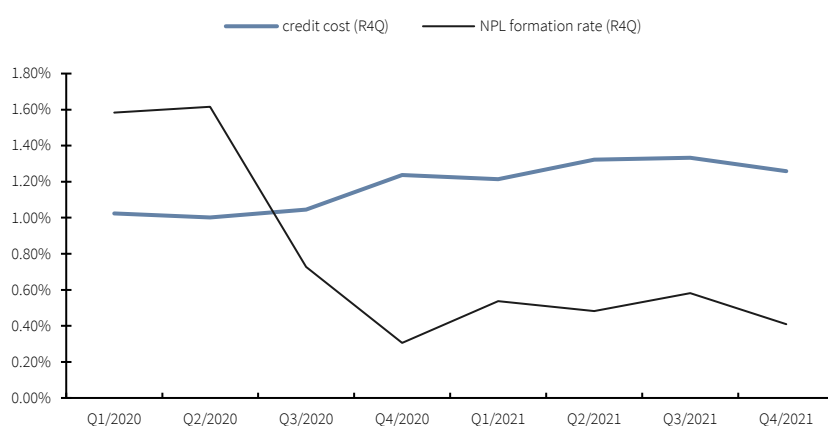
Fig 11. VCB – Loan loss reserve fund (%)



Source: Vietcombank, KB Securities Vietnam

Stable credit cost at around 1.3% and high LLR may help reduce provisioning pressure in the future

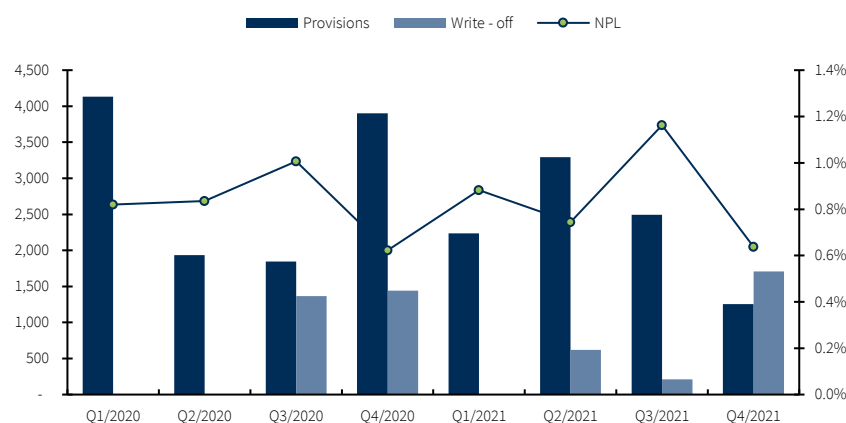
Fig 12. VCB – Credit cost, NPL formation rate (%)



Source: Vietcombank, KB Securities Vietnam

VCB stepped up writing off bad debts in the fourth quarter of 2021, reflecting the adverse impact of the pandemic on asset quality

Fig 13. VCB – Provision, written-off debts, NPL (VNDbn)

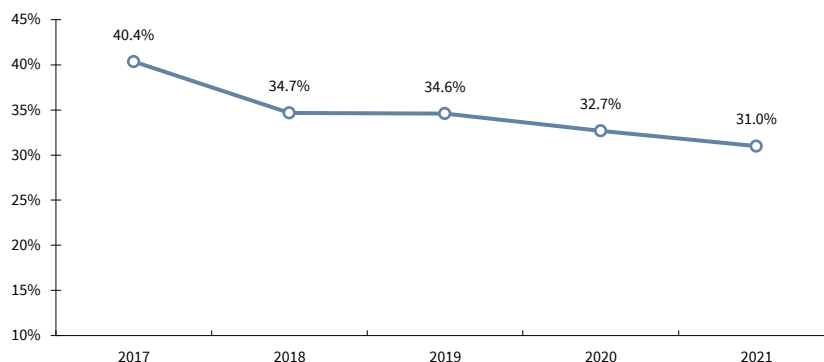


Source: Vietcombank, KB Securities Vietnam

Good asset quality and credit growth will be the key drivers for VCB's profit growth in 2022

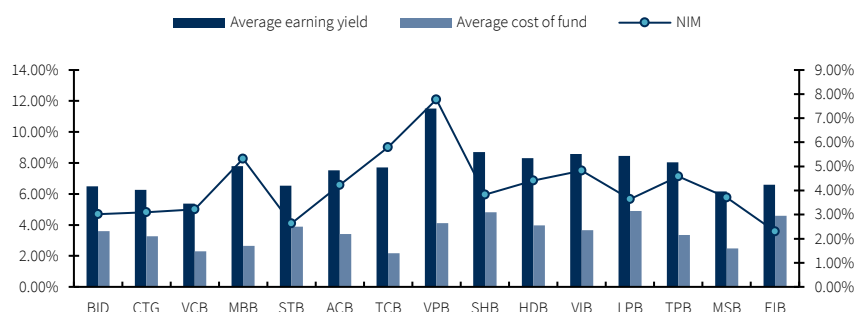
We believe that VCB's positive profit growth will continue in 2022 because: (1) Good asset quality and high LLCR may help reduce provisioning pressure in the coming years; (2) the private placement, if successful, will improve CAR. As a result, the State Bank will set high credit growth targets for VCB; (3) NIM is down slightly thanks to CASA and optimized LDR; and (4) better cost control can make CIR continue its downtrend.

Fig 14. VCB - CIR (%)



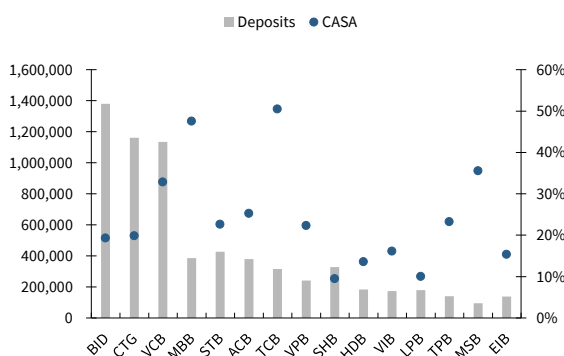
Source: Vietcombank, KB Securities Vietnam

Fig 15. Vietnamese banks - Cost of funds, earnings yield, NIM



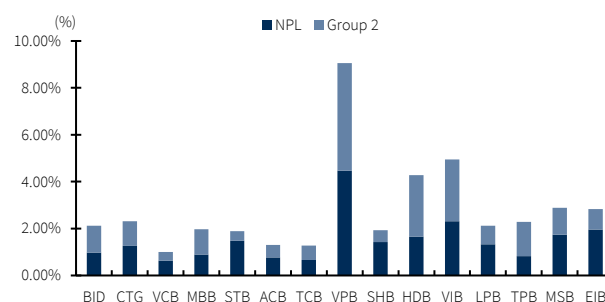
Source: Vietcombank, KB Securities Vietnam

Fig 16. Vietnamese banks - Deposits & CASA (VNDbn, %)



Source: Vietcombank, KB Securities Vietnam

Fig 17. Vietnamese banks - Bad debts, special mention loans



Source: Vietcombank, KB Securities Vietnam

Forecast business performance

We make a forecast for VCB in 2022F as follows:

- Credit growth should reach 13.8% as businesses step up borrowing to recover from the COVID-19 pandemic.
- We keep our forecast for NIM at 3.1% on the expectation that VCB will take advantage of high CASA and optimized LDR, which can compensate for the liquidity not being as ample as in 2021, causing VCB's cost of funds to increase slightly.
- Non-interest income may gain by 4.4% YoY thanks to bancassurance and foreign currency trading.
- NPL should remain at 1.0% thanks to good asset quality along with a high provision to deal with bad debts.
- Provision expenses are expected to be lower than in 2021, reaching VND9,752 billion because VCB boosted provisioning last year while asset quality remained good.
- We estimate 2022F NPAT to reach VND26,137 billion, up 19.2% YoY.

Table 18. VCB – 2022E–2023E business results

VND bn	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	42,387	48,235	57,256	14%	19%
Net fee income	7,407	8,113	8,984	10%	11%
Total operating income	56,711	63,189	73,081	11%	16%
Provision for credit losses	(11,761)	(9,107)	(10,319)	-23%	13%
Net profit after tax	21,928	28,100	33,254	28.1%	18.3%
NIM	3.15%	3.26%	3.39%	11bps	13bps
Average earnings yield	5.26%	5.56%	5.95%	29bps	39bps
Average cost of funds	2.30%	2.54%	2.87%	24bps	33bps
CIR	31.0%	30.0%	29.0%	-99bps	-100bps
NPL	0.64%	1.00%	1.00%	36bps	0bps
Total asset	1,414,765	1,589,213	1,822,027	12%	15%
Owner Equity	111,171	149,370	182,458	34%	22%

Source: KB Securities Vietnam

We recommend BUYING VCB shares with a target price of VND105,000/share

We use the P/B valuation method to find a fair price for VCB shares. Assuming VCB's high-profit growth, a successful private placement in late 2022, combined with good asset quality and its leading position in the industry, we give VCB shares a 2022 forward P/B of 3.4x, equivalent to +1Std of VCB's five-year average P/B (Figure 19).

Based on the valuation result, we maintain our BUY recommendation for VCB shares with a target price of VND105,000 per share, 23.8% higher than the closing price on March 7, 2022. We assess VCB as a potential stock to invest in in the medium and long term.

Fig 19. VCB – 2022 forward P/B (x)



VCB – 2019A–2023E business results

Income Statement (VNDbn)					Balance Sheet (VNDbn)						
	2019	2020	2021	2022F	2023F		2019	2020	2021	2022F	2023F
Net interest income	34,577	36,285	42,387	48,235	57,256	Loans	724,290	820,545	934,774	1,068,311	1,218,199
Interest income	67,724	69,205	70,749	82,195	100,389	Marketable securities	1,801	1,954	2,766	3,152	3,593
Interest expense	(33,147)	(32,920)	(28,362)	(33,960)	(43,133)	Cash (ex. Reserves)	13,778	15,055	18,012	19,413	22,131
Fees & commissions	4,307	6,607	7,407	8,113	8,984	Interest earning assets	1,191,721	1,301,421	1,366,254	1,571,677	1,803,524
Other non-interest income	3,070	1,800	2,393	2,325	2,325	Fixed assets & other assets	31,067	30,595	40,404	35,364	39,196
Total operating income	45,730	49,063	56,711	63,189	73,081	Total assets	1,222,719	1,326,230	1,414,765	1,589,213	1,822,027
SG&A expenses	(15,818)	(16,038)	(17,575)	(18,957)	(21,193)	Customer deposits	928,451	1,032,114	1,135,324	1,294,187	1,475,373
Pre-provisioning OP	29,913	33,024	39,136	44,232	51,887	Borrowings & call money/repos	21,404	21,307	17,395	20,282	23,016
Provision for credit losses	(6,790)	(9,575)	(11,761)	(9,107)	(10,319)	Interest bearing liabilities	1,115,838	1,198,181	1,271,945	1,403,159	1,599,438
Other income	3,428	2,545	3,100	3,100	3,100	Other liabilities	25,998	33,954	31,650	36,684	44,049
Other expense	(358)	(744)	(707)	(775)	(775)	Total liabilities	1,141,836	1,232,135	1,303,595	1,439,843	1,643,487
Pre-tax income	23,122	23,050	27,376	35,125	41,568	Charter capital	37,089	37,089	37,089	47,329	47,329
Income tax expense	(4,596)	(4,577)	(5,447)	(7,025)	(8,314)	Capital surplus	4,995	4,995	4,995	4,995	4,995
NP	18,526	18,473	21,928	28,100	33,254	Retained earnings	26,055	36,650	53,683	81,642	114,730
Minority interest profit	(15)	(21)	(20)	(141)	(165)	Capital adjustments	-	-	-	-	-
Parent NP	18,511	18,451	21,908	27,960	33,088	Total shareholders' equity	80,883	94,095	111,171	149,370	182,458

Financial Indicators (%)					Valuation (VND, X, %)						
	2019	2020	2021	2022F	2023F		2019	2020	2021	2022F	2023F
Profitability						Share Price Indicators					
ROE	25.9%	21.1%	21.4%	21.6%	20.0%	EPS	4,991	4,975	5,116	5,908	6,991
ROA	1.6%	1.4%	1.6%	1.9%	1.9%	BVPS	21,808	25,370	29,974	31,560	38,551
Pre-provision ROE	33.3%	30.2%	30.5%	27.2%	25.0%	Tangible BVPS	21,198	24,527	29,146	30,869	37,868
Pre-provision ROA	2.1%	2.1%	2.3%	2.4%	2.4%	Valuations					
Net interest margin (NIM)	3.1%	2.9%	3.2%	3.3%	3.4%	PER	17.0	17.1	16.6	14.4	12.1
Efficiency						PBR	3.9	3.3	2.8	2.7	2.2
Pure Loan to deposit ratio	79.1%	81.4%	84.6%	85.0%	85.0%	Dividend yield	0.0%	0.9%	0.9%	0.9%	0.9%
Cost-income ratio	34.6%	32.7%	31.0%	30.0%	29.0%	ROE	25.9%	21.1%	21.4%	21.6%	20.0%
Growth						Capital Adequacy					
Asset growth	13.8%	8.5%	6.7%	12.3%	14.6%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	16.5%	13.3%	13.9%	14.3%	14.0%	Asset Quality					
PPOP growth	16.5%	10.4%	18.5%	13.0%	17.3%	NPL ratio (substandard)	0.8%	0.6%	0.6%	1.0%	1.0%
Parent NP growth	26.7%	-0.3%	18.7%	27.6%	18.3%	Coverage ratio (substandard)	176.3%	368.0%	424.4%	288.6%	286.0%
EPS growth	22.9%	-0.3%	2.8%	15.5%	18.3%	NPL ratio (precautionary)	1.1%	1.0%	1.0%	1.7%	1.7%
BVPS growth	26.2%	16.3%	18.1%	5.3%	22.2%	Coverage ratio (precautionary)	122.3%	239.8%	270.0%	169.8%	168.2%

Source: Vietcombank, 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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