

VPBank (VPB)

NPL ratio expanded by 53 bps in 4Q21

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4Q21 PBT reached VND2,845 billion (-21.5% YoY)

In 4Q21, VPBank's (VPB) net interest income (NII) reached VND12,498 billion (+14.0% QoQ, -2.5% YoY), provision expenses were VND5,371 billion (+7.9% QoQ, +24.4% YoY), the highest in recent quarters, making 4Q21 PBT record VND2,845 billion (+5.4% QoQ, -21.5% YoY). For the whole year of 2021, the bank delivered VND14,580 billion (+12.0% YoY) in PBT.

NPL ratio was 4.5% (+53 bps QoQ) due to the negative impacts of COVID-19

NPL ratio continued to rise in 4Q21 due to the negative impact of the pandemic, reaching 4.47%, up 47bps QoQ. Restructured debts hit VND16.1 trillion (+1.3% QoQ), equivalent to 4.2% of outstanding loans, by the end of 4Q21.

Pressure to reduce NIM exists in 2022

VPB expects 2022F NIM to decline YoY. KBSV believes this may stem from increased pressure to raise the cost of funds in 2022 in the context of high LDR currently combined with interbank rates showing signs of resurging.

VPB expects to find a strategic partner in 1H22

As of February 18, 2022, VPB's foreign ownership limit reached 17.01% vs. the 30% cap set by the State Bank. The bank hopes to find a strategic partner and complete the stake sale in 1H22.

We recommend BUYING VPB shares with a target price of VND44,700 apiece

We recommend BUYING VPB shares based on the valuation results, business outlook, and potential risks. The target price is VND44,700/share, 24.5% higher than the closing price on February 18, 2022.

Buy maintain

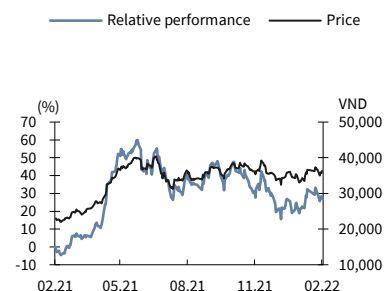
Target price	VND44,700
Upside/Downside (%)	24.5
Current price (Feb 18, 2022)	VND35,900
Consensus target price	VND42,330
Market cap (VNDbn)	158,479

Trading data	
Free float (%)	84.9
3M avg trading value (VNDbn/USDmn)	602/25.9
Foreign ownership (%)	17.01
Major shareholder	Ngo Chi Dung (4.81%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	9	-1	7	57
Relative	5	-4	-9	27

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VND bn)	32,346	34,349	43,136	54,430
Pre-provision operating income (VND bn)	27,641	33,583	40,549	49,874
NPAT of parent bank (VND bn)	10,414	11,808	14,649	18,920
Eps (VND)	4,116	2,621	3,251	4,199
EPS growth (%)	26	-36	24	29
PER (x)	14.7	23.1	18.6	14.4
Book value per share (VND)	20,867	19,187	23,406	28,005
PBR (x)	2.90	3.16	2.59	2.16
ROE (%)	21.9	16.7	16.8	17.9



Source: Bloomberg, KB Securities Vietnam

Updated business performance

4Q21 PBT reached VND2,845 billion (-21.5% YoY)

In the fourth quarter of 2021, VPB's business activities showed signs of recovery after the lost quarter of 3Q21 that was affected by the pandemic. NII reached VND12,498 billion (+14.0% QoQ, -2.5% YoY) with a 17.2% YoY gain in the parent bank and a 22.8% YoY decrease in FE Credit. Non-interest income (NOII) hit VND2,548 billion (-4.2% QoQ, +29.5% YoY), driving TOI to achieve VND11,070 billion (+3.4% YoY). Provision expenses were VND5,371 billion (+7.9% QoQ, +24.4% YoY), the highest in recent quarters, helping 4Q21 PBT reach VND2,845 billion (+5.4% QoQ, -21.5% YoY). In 2021, VPB posted VND14,580 billion (+12.0% YoY) in PBT.

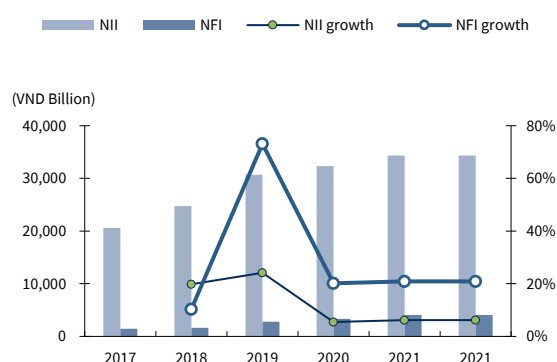
Credit growth reached 10.0% QoQ and 18.7% YoY

In addition, credit growth accelerated (+10.0% QoQ, +18.7% YoY) in the last quarter after eased social distancing protocols, with the parent bank's outstanding loans up 7.7% QoQ and FE Credit's growth up 20.8% QoQ, improving considerably compared to previous quarters.

4Q21 NIM dropped by 105 bps YoY due to the lower average earnings yield of the parent bank and FE Credit

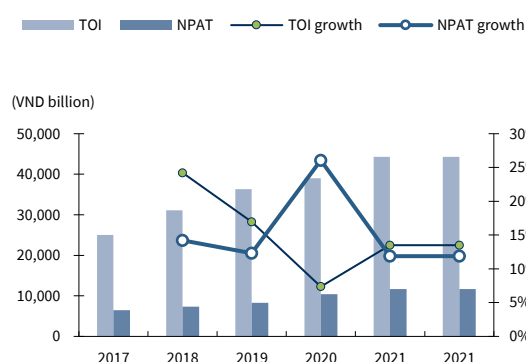
4Q21 NIM shrank for the fourth consecutive quarter to 7.63% (-58bps QoQ, -105bps YoY). This figure of the parent bank was 5.09% (-24 bps QoQ) with a sharp drop in average earnings yield and improved cost of funds. Meanwhile, FE Credit's NIM was down 203bps QoQ to 20.35%, with average earnings yield down 258bps QoQ.

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



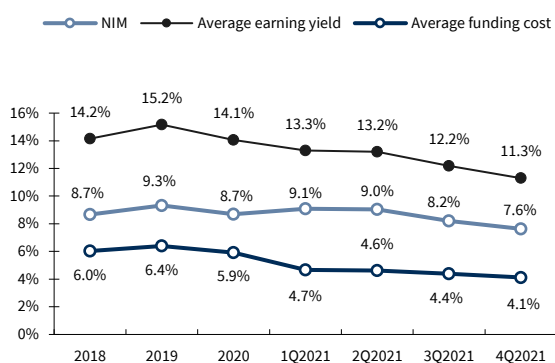
Source: VPBank, KB Securities Vietnam

Fig 2. VPB – TOI, NPAT (VND bn, % YoY)



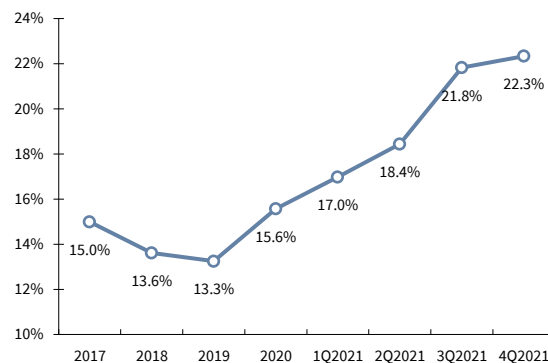
Source: VPBank, KB Securities Vietnam

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



Source: VPBank, KB Securities Vietnam

Fig 4. VPB – CASA ratio (%)

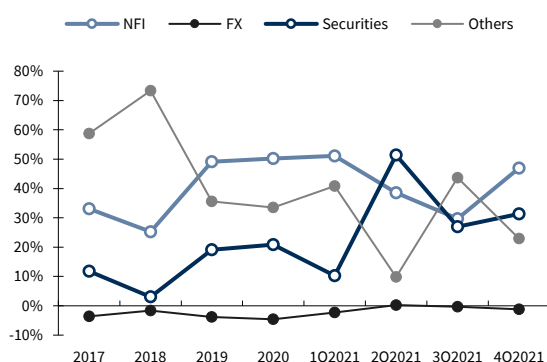


Source: VPBank, KB Securities Vietnam

NOII reached VND2,548 billion (+29.5% YoY) in 4Q21

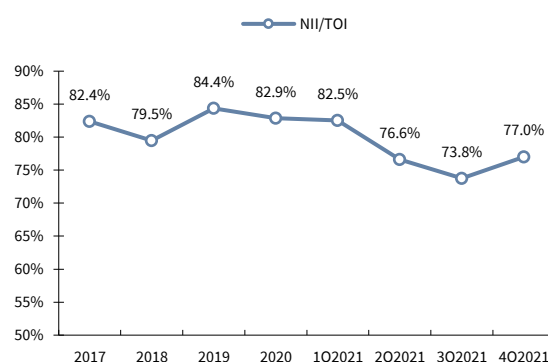
In the fourth quarter, service fees hit VND1,196 billion (+51.3% QoQ, +15.8% YoY), of which payment processing fees went up by 9% YoY while bancassurance fell by 12.6% YoY. Net gains from securities trading and investment remained high at VND798 billion (+170.4% YoY), helping 4Q21 NOII reach VND2,548 billion (+29.5% YoY). NOII/TOI was 23.0%, down 322bps QoQ.

Fig 5. VPB – NOII structure, 2017-2021 (%)



Source: VPBank, KB Securities Vietnam

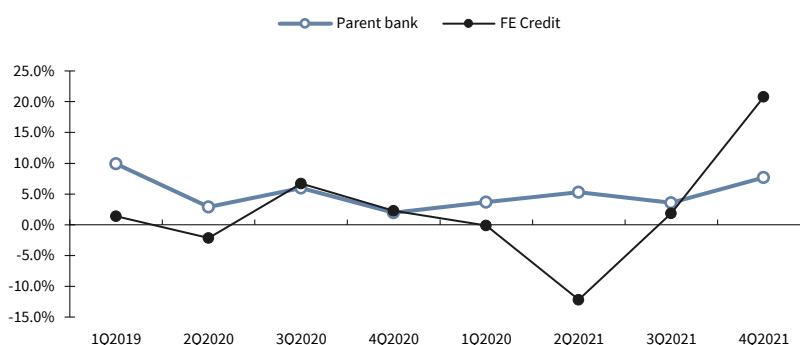
Fig 6. VPB – NII/TOI, 2017-2021 (%)



Source: VPBank, KB Securities Vietnam

Fig 7. VPB – Credit growth (% QoQ)

Credit growth of the parent bank improved only 7.7% QoQ while FE Credit recovered strongly, reaching 20.8% QoQ.



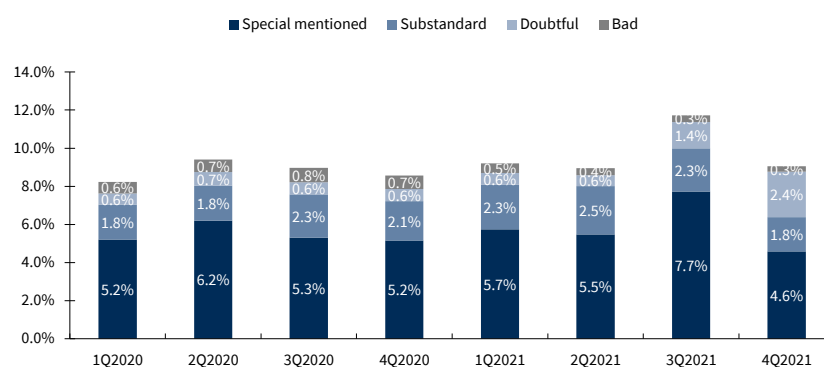
Source: VPBank, KB Securities Vietnam

NPL ratio hit 4.5% (+53 bps QoQ under the negative impact of COVID-19

NPL ratio continued to surge in 4Q21 under the impact of COVID-19, reaching 4.47% (+53 bps QoQ). During the quarter, VPB made a provision of VND5,371 billion (+7.9% QoQ, +24.4% YoY); the loan loss coverage ratio (LLCR) rose to 60.9% (+11.95 QoQ). Restructured loans by the end of 4Q21 were VND16.1 trillion (+1.3% QoQ) or 4.2% of total outstanding loans, with VND11.3 trillion from the parent bank and VND4.8 billion from FE Credit. VPB provisioned VND1,176 billion, or 30% of the provision expenses for restructured debts. VPB said pandemic-hit customers enjoying restructured debt might fulfill a part of their debt obligations in 4Q21 thanks to the improved cash flow. As a result, this will not profoundly affect asset quality after recording restructured debts to NPL beyond June 2022, as per Circular 14/2021/TT-NHNN.

Special mention loans plummeted when businesses returned to operations following the lockdown removal of the fourth COVID wave in 3Q21

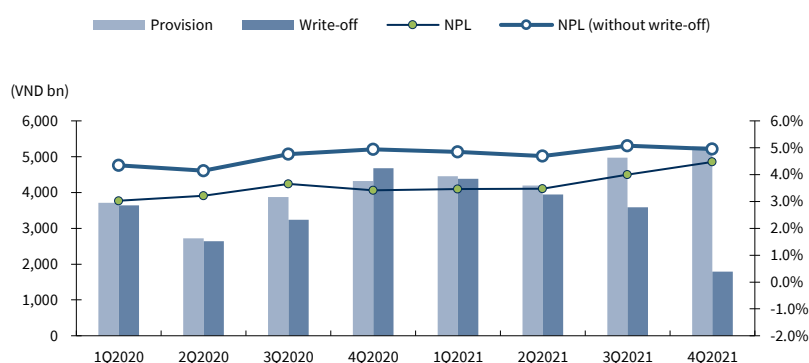
Fig 8. VPB – Debt structure (%)



Source: VPBank, KB Securities Vietnam

Provision expenses and NPLs surged in 4Q21, reflecting the adverse impact of the pandemic on asset quality

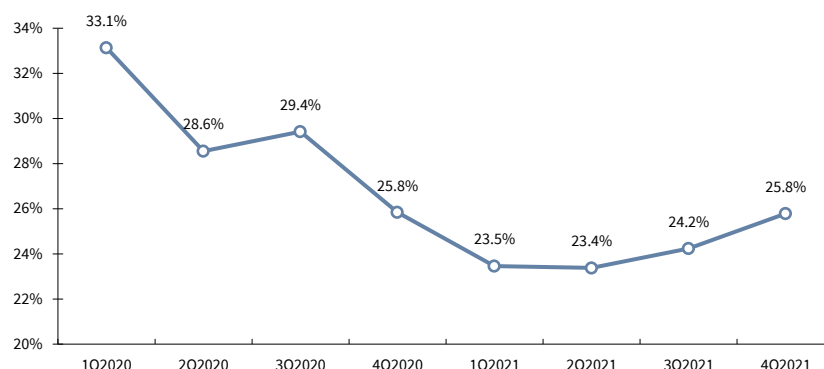
Fig 9. VPB – Provision, written-off, NPL (VND bn, %)



Source: VPBank, KB Securities Vietnam

CIR jumped by 160 bps QoQ in 4Q21 but remained low for the whole year of 2021 at 24.2% vs. 29.2% in 2020

Fig 10. VPB – CIR (%)



Source: VPBank, KB Securities Vietnam

Pressure to reduce NIM exists in 2022

VPB expects 2022F NIM to decrease YoY. We believe this may stem from increased pressure to raise the cost of funds in 2022. Last year, LDR was 143%, the highest in recent years, and interbank rates showed signs of resurging to their pre-pandemic levels. This will put more pressure on increasing deposit rates to attract more customers and enhance liquidity.

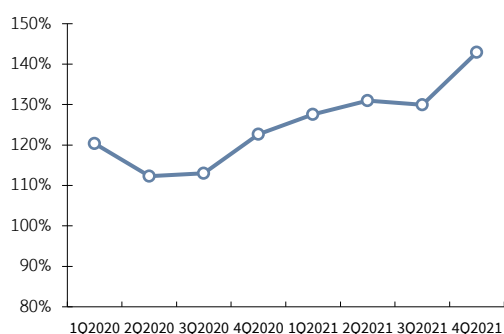
VPB expects to find a strategic partner in 1H22

As of February 18, 2021, VPB's foreign ownership limit was 17.01% vs. the 30% cap set by the State Bank. VPB has been looking for strategic shareholders since 2019. Reducing the maximum foreign limit to 15% is considered to pave the way for strategic shareholders. The bank hopes to find a partner and complete the stake sale in 1H22.

The increased capital from the FE Credit and stake sale deals to the strategic partner may promote long-term growth

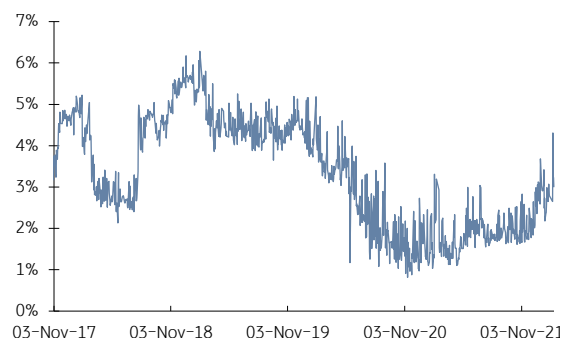
The improved capital from the FE Credit divestment and stake sale to the strategic investor may boost VPB's credit growth and further develop business activities. By the end of 4Q21, the bank's equity had reached VND86,451 billion. With an expected ROE equivalent to the industry standard at 20.6%, VPB's NPAT should be VND18,000 billion (+54.5% YoY).

Fig 11. VPB – LDR, 2020–2021 (%)



Source: VPBank, KB Securities Vietnam

Fig 12. VPB – Interbank rates, 2017–2021 (%)



Source: VPBank, KB Securities Vietnam

Forecast business performance

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

- Credit growth should be 22.6%, up 383bps, reflecting the expectation for credit growth driven by the post-pandemic economic recovery.
- NIM may decrease to 7.44%, down 19 bps YoY, reflecting an increase in the average cost of funds.
- NPL ratio is estimated at 5.0%, up 53 bps YoY, due to the debt rescheduling under Circular 14/2021/TT-NHNN.
- Provision expenses should maintain high, reaching VND20,363 billion, up 7.2% YoY.
- We expect the parent bank's NPAT in 2022 to reach VND16,149 billion, up 24.1% YoY.

Table 13. VPB – 2022E–2023E business performance

	2021A	2022F	2023F	%YoY 2022	%YoY 2023
NII	34,349	43,136	54,430	25.6%	26.2%
Service fees	4,059	5,851	6,866	44.2%	17.3%
TOI	44,301	53,353	65,624	20.4%	23.0%
Provision expenses	(19,002)	(20,363)	(23,974)	7.2%	17.7%
NPAT of the parent bank	11,808	14,649	18,920	24.1%	29.2%
NIM	7.63%	7.44%	7.60%	-19bps	15bps
Average earnings yield	11.30%	11.92%	12.49%	62bps	57bps
Average cost of funds	4.12%	5.19%	5.60%	106bps	41bps
CIR	24.2%	24.0%	24.0%	-20bps	0bps
NPL	4.47%	5.00%	4.50%	53bps	-50bps
Total assets	547,626	694,316	832,381	27%	20%
Equity	86,451	105,459	126,179	22%	20%

Source: KB Securities Vietnam

We recommend BUYING VPB shares with a target price of VND44,700 apiece

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

(1) P/B valuation

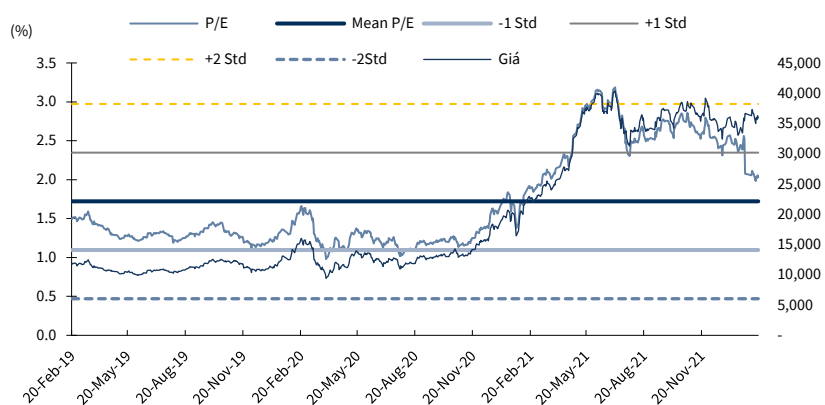
We chose a forward P/B of 2.3x, equivalent to +1Std of VPB's three-year average P/B, reflecting our expectations for VPB's growth after raising Tier 1 capital along with positive signals from selling the stake to strategic partners.

(2) Residual income valuation

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

Combining the above two valuation methods with the ratio of 50-50, we find the final fair price for VPB shares in 2022 at VND44,700/share, 24.5% higher than the closing price on February 18, 2022.

Fig 14. VPB – P/B, share price performance (x, VND)



Source: Fiiipro, KB Securities Vietnam

Table 15. VPB – Target price according to residual income valuation (VND)

	2022F	2023F	2024F
PAT (VND bn)	16,148.70	20,720.12	24,331.78
Excessed return (VND bn)	4,205.36	6,173.47	6,923.38
Required rate of return (r)	12.08%		
Growth (g)	5.0%		
Terminal value (VND)	81,737		
End-2022 fair price	181,608		
Price	40,306		

Source: KB Securities Vietnam

Table 16. VPB – Target price according to valuation methods (VND)

Valuation method	Forecast price	Weight	Weighted price
P/B	49,019	50%	24,509
Residual income	40,306	50%	20,153
Target price			44,700

Source: KB Securities Vietnam

VPB – 2019A–2023E financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2019	2020	2021	2022F	2023F		2018	2019	2020E	2021F	2022F
Net interest income	30,670	32,346	34,349	43,136	54,430	Loans	253,100	286,319	345,607	422,501	509,073
Interest income	49,875	52,362	50,827	69,052	89,453	Marketable securities	1,567	493	6,971	70	89
Interest expense	(19,204)	(20,016)	(16,478)	(25,917)	(35,023)	Cash (ex. Reserves)	2,459	3,283	2,346	3,872	4,944
Fees & commissions	2,792	3,356	4,059	5,851	6,866	Interest earning assets	351,188	393,458	506,371	652,617	780,266
Other non-interest income	2,020	2,236	2,808	3,281	2,953	Fixed assets & other assets	27,797	26,853	47,877	48,214	57,744
Total operating income	36,356	39,033	44,301	53,353	65,624	Total assets	377,204	419,027	547,626	694,316	832,381
SG&A expenses	(12,344)	(11,392)	(10,719)	(12,805)	(15,750)	Customer deposits	213,950	233,428	241,837	325,897	416,105
Pre-provisioning OP	24,012	27,641	33,583	40,549	49,874	Borrowings & call money/repos	57,937	63,172	81,400	93,328	111,992
Provision for credit losses	(13,688)	(14,622)	(19,002)	(20,363)	(23,974)	Interest bearing liabilities	322,482	352,939	446,206	552,728	698,564
Other income	2,682	3,442	5,469	5,469	4,922	Other liabilities	12,220	13,107	14,865	35,991	7,474
Other expense	(663)	(1,206)	(2,661)	(2,187)	(1,969)	Total liabilities	334,994	366,233	461,175	588,856	706,201
Pre-tax income	10,324	13,019	14,580	20,186	25,901	Charter capital	25,300	25,300	45,057	45,057	45,057
Income tax expense	(2,064)	(2,606)	(2,930)	(4,037)	(5,180)	Capital surplus	693	366	77	77	77
NP	8,260	10,414	11,651	16,149	20,720	Retained earnings	11,806	17,415	22,500	38,309	57,230
Minority interest profit	-	-	157	(1,500)	(1,800)	Capital adjustments	-	-	-	-	-
Parent NP	8,260	10,414	11,808	14,649	18,920	Total shareholders' equity	42,210	52,794	86,451	105,521	126,242

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	21.5%	21.9%	16.7%	16.8%	17.9%	EPS	3,265	4,116	2,621	3,251	4,199
ROA	2.4%	2.6%	2.4%	2.6%	2.7%	BVPS	16,684	20,867	19,187	23,420	28,018
Pre-provision ROE	49.9%	46.5%	38.6%	33.8%	34.4%	Tangible BVPS	16,455	20,610	19,042	23,221	27,776
Pre-provision ROA	5.5%	5.6%	5.6%	5.2%	5.2%	Valuations					
Net interest margin (NIM)	9.3%	8.7%	7.6%	7.4%	7.6%	PER	18.6	14.7	23.1	18.6	14.4
Efficiency						PBR	3.6	2.9	3.2	2.6	2.2
Pure Loan to deposit ratio	120.2%	124.6%	146.9%	133.0%	125.0%	Dividend yield	0.0%	0.0%	0.8%	1.1%	1.5%
Cost-income ratio	34.0%	29.2%	24.2%	24.0%	24.0%	ROE	21.5%	21.9%	16.7%	16.8%	17.9%
Growth						Capital Adequacy					
Asset growth	16.7%	11.1%	30.7%	26.8%	19.9%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	15.9%	13.1%	20.7%	22.2%	20.5%	Asset Quality					
PPOP growth	17.4%	15.1%	21.5%	20.7%	23.0%	NPL ratio (substandard)	3.4%	3.4%	4.5%	5.0%	4.5%
Parent NP growth	12.3%	26.1%	13.4%	24.1%	29.2%	Coverage ratio (substandard)	46.4%	45.3%	60.9%	50.5%	47.2%
EPS growth	12.3%	26.1%	-36.3%	24.1%	29.2%	NPL ratio (precautionary)	8.2%	8.6%	9.1%	9.6%	9.1%
BVPS growth	21.5%	25.1%	-8.1%	22.1%	19.6%	Coverage ratio (precautionary)	19.4%	18.0%	30.1%	26.3%	23.4%

Source: VPBank, 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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