

Vietcombank (VCB)

Earnings to be back on growth track

March 19, 2024

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2023 NPAT achieved VND41,244 billion (+10.4% YoY)

In the fourth quarter of 2023, Vietcombank (VCB) saw a 14.5% decline in TOI due to disappointing results in both NII (-13.6% YoY) and NOII (-18.1% YoY). NPAT, therefore, shrank by 5.8% YoY to VND11,693 billion. For the entire year 2023, NPAT recorded VND41,244 billion (up 10.4% YoY), fulfilling the full-year target.

VCB guided for its 2024 PBT to rise by at least 10% YoY

VCB released its business plan for 2024 as follows: total assets up by at least 8%, credit up at least 12% (staying within the assigned limit), the NPL ratio below 1.5%, and PBT up by at least 10%. VCB has agreed on a plan to pay stock dividends to existing shareholders from FY22 retained earnings, with the amount spent equivalent to ~39% of the charter capital.

Credit growth is expected to accelerate in 2024 and reach 14%

The driving force in 1H2024 will come from export activities, public investment, and FDI inflows, thus bolstering borrowing demand for operations among enterprises. Simultaneously, the expected recovery in consumer demand in the year-end period will help to drive retail lending.

VCB took the lead in terms of asset quality

The NPL ratio improved well in 4Q2023, down to 0.98% from 1.21% in 3Q2023. We believe VCB's asset quality will slightly improve in 2024 as the NPL ratio is declining while the ratio of special mentioned loans peaked in 2Q2023.

We recommend BUY for VCB with a target price of VND109,100/share

We recommend BUY for VCB with a target price of VND109,100 apiece for 2024, 17.3% higher than the closing price on March 18, 2024.

Buy maintain

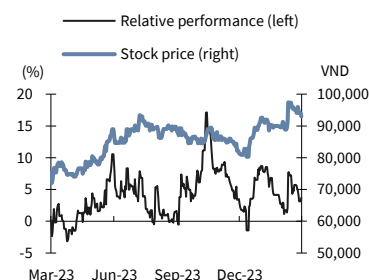
Target price	VND109,100
Upside	17.3%
Current price (Mar 18, 2024)	VND93,000
Consensus target price	1VND03,000
Market cap (VNDbn/USDbn)	519,785/21.02

Trading data	
Free float	25.2%
3M avg trading value (VNDbn/USDmn)	139.04/5.6
Foreign ownership	23.5%
Major shareholder	State Bank (SBV, 74.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	4	14	5	23
Relative	1	0	2	4

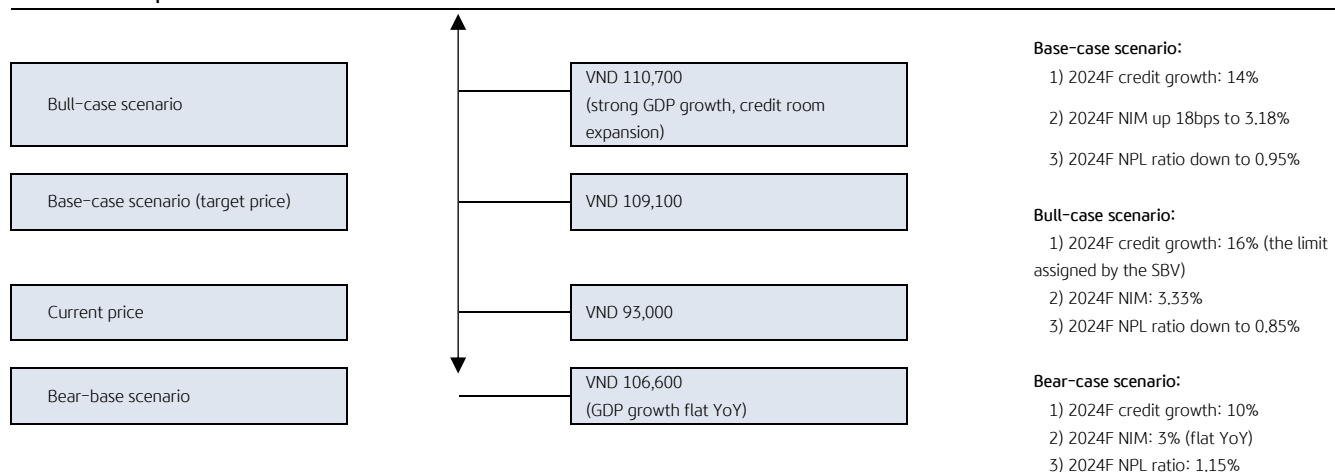
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net interest income (VNDbn)	53,246	53,621	61,592	73,802
PPOP (VNDbn)	46,832	45,809	53,201	62,772
NPAT-MI (VNDbn)	29,919	33,054	36,537	43,282
EPS (VND)	6,318	5,910	6,533	7,267
EPS growth (%)	7%	-6%	11%	11%
PER (x)	14.7	15.7	14.2	12.8
Book value per share (VND)	28,665	30,156	36,689	46,997
PBR (x)	3.24	3.08	2.53	1.98
ROE (%)	24.4	21.7	19.6	17.9
Dividend yield (%)	0.00	0.00	0.00	0.65



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

Business performance

2023 NPAT achieved VND41,244 billion (+10.4% YoY)

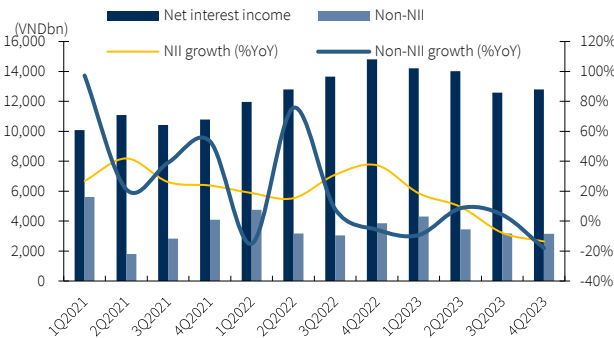
In the fourth quarter of 2023, VCB's total operating income (TOI) saw a sharp decline of 14.5% YoY due to disappointing results in both net interest income (NII) (-13.6% YoY) and non-interest income (NOII) (-18.1% YoY). Consequently, NPAT shrank by 5.8% YoY to VND11,693 billion. For 2023, TOI contracted by 0.5% YoY to VND67,723 billion since NOII dropped 4.9% YoY while NII only picked up 0.7% YoY. Provisions for credit losses fell sharply by 51.8% YoY due to a reversal of over VND5,000 billion in interbank loans. As a result, NPAT gained 10.4% YoY to VND41,244 billion for the entire year, fulfilling the full-year target. The NPL ratio increased to 0.98%, but VCB still took the lead regarding asset quality, with a loan loss coverage ratio (LLCR) of 230%.

Table 1. VCB – 2022A–2023A business results

(VNDbn)	4Q2022	4Q2023	%YoY	2022A	2023A	%YoY	KBSV's comments
Net interest income (NII)	14,809	12,801	-13.6%	53,246	53,621	0.7%	In 2023, net interest income only increased slightly YoY in the context of narrowing NIM and slowing credit growth.
Non-interest income (NOII)	3,853	3,158	-18.1%	14,836	14,103	-4.9%	In 4Q2023, upfront fees from bancassurance increased QoQ while net gains from other services recorded a sharp decline. For the whole year 2023, NFI contracted by 4.9% YoY due to a 15% decrease in net fee and commission income and a 2% decrease in FX profit. Other income alone (mainly from bad debt recovery) improved by 10.6% YoY.
Total operating income (TOI)	18,663	15,959	-14.5%	68,083	67,723	-0.5%	
Operating expenses	(4,565)	(5,752)	26.0%	(21,251)	(21,915)	3.1%	
CIR	24.5%	36.0%	+11.6ppts	31.2%	32.4%	+1.1ppts	
Provision expenses	(1,679)	1,487	N/A	(9,464)	(4,565)	-51.8%	In the context of rising bad debts, VCB set aside about VND9,700 billion for customer loans in 2023, an increase of 2.7 times YoY. However, with the reversal of more than VND5,000 billion in interbank loans, VCB's provision expenses dropped by 51.8% YoY.
PBT	12,419	11,693	-5.8%	37,368	41,244	10.4%	
NPAT	9,934	9,360	-5.8%	29,919	33,054	10.5%	
Credit growth				18.8%	10.7%	-8.1ppts	Credit growth rose sharply by +7ppts QoQ in 4Q2023 and touched 10.7% for the whole year, but it is still lower than that of other state-owned banks like BIDV (BID, +16.7% YTD), Vietinbank (CTG, +15.6% YTD). Outstanding customer loans increased by 10.9% YTD, driven by corporate loans (+18.6% YTD), of which loans to foreign-invested companies grew by 28% YTD. Retail lending increased slightly by 4.6% YoY with a shift from mortgage loans to others. Customer deposits grew steadily 12.2% YTD, while interbank loans and the issuance of valuable papers declined.
Deposit growth				10.1%	11.6%	+1.5ppts	
NIM				3.38%	3.00%	-38bps	NIM narrowed 38 bps YoY due to a sharp increase in the cost of funds (COF), reflecting high deposit interest rates in the period 4Q2022–1Q2023, while the average earnings yield increased more slowly as VCB actively kept lending interest rates low to support businesses.
NPL ratio				0.68%	0.98%	+30bps	The NPL ratio increased by 30bps in line with the overall trend of the entire banking industry. However, VCB still took the lead regarding asset quality, with a loan loss coverage ratio (LLCR) of 230%.

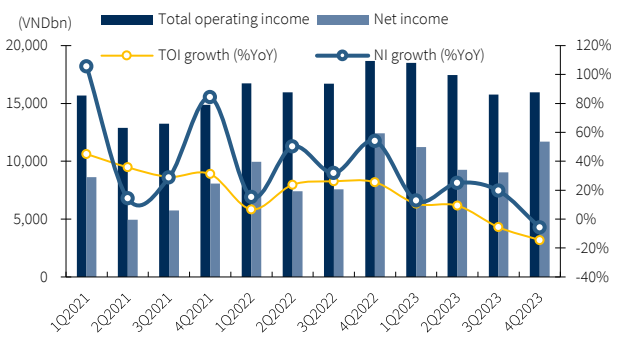
Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – NII, NOII growth (VNDbn, %YoY)



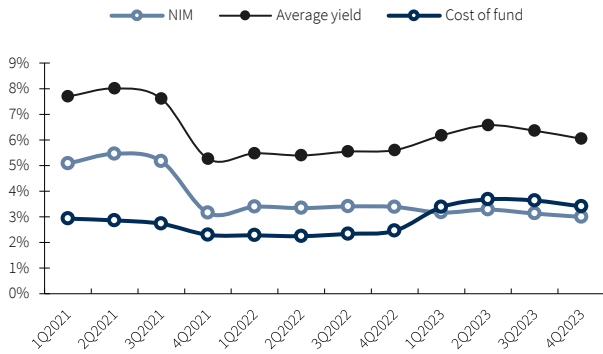
Source: Vietcombank, KB Securities Vietnam

Fig 3. VCB – TOI, NPAT growth (VNDbn, %YoY)



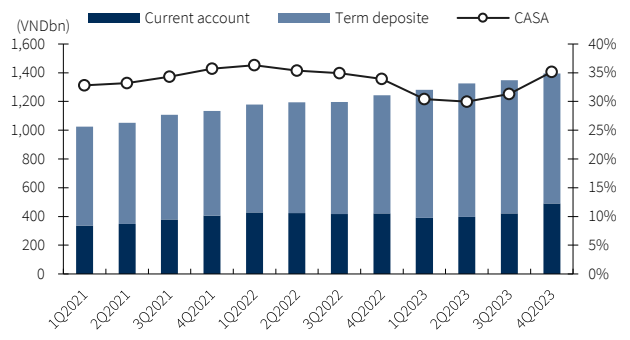
Source: Vietcombank, KB Securities Vietnam

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



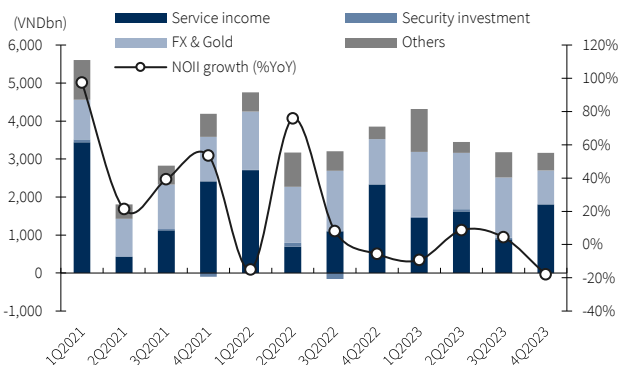
Source: Vietcombank, KB Securities Vietnam

Fig 5. VCB – CASA, CASA ratio by quarter (VNDbn, %)



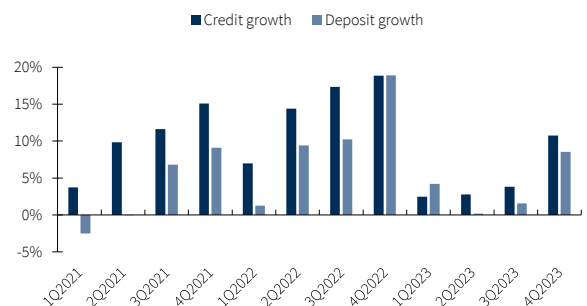
Source: Vietcombank, KB Securities Vietnam

Fig 6. VCB – NOII breakdown (VNDbn, %)



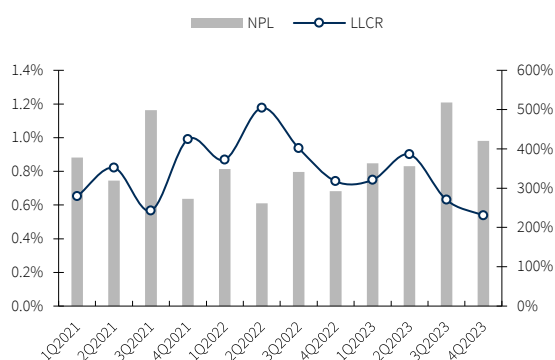
Source: Vietcombank, KB Securities Vietnam

Fig 7. VCB – Credit & deposit growth by quarter (%YTD)



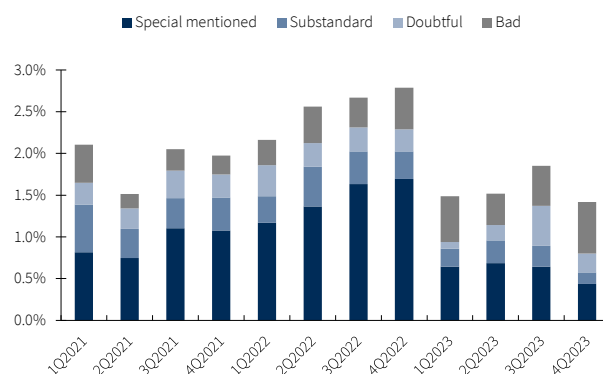
Source: Vietcombank, KB Securities Vietnam

Fig 8. VCB – NPL ratio, LLCR (%)



Source: Vietcombank, KB Securities Vietnam

Fig 9. VCB – Debt groups (%)



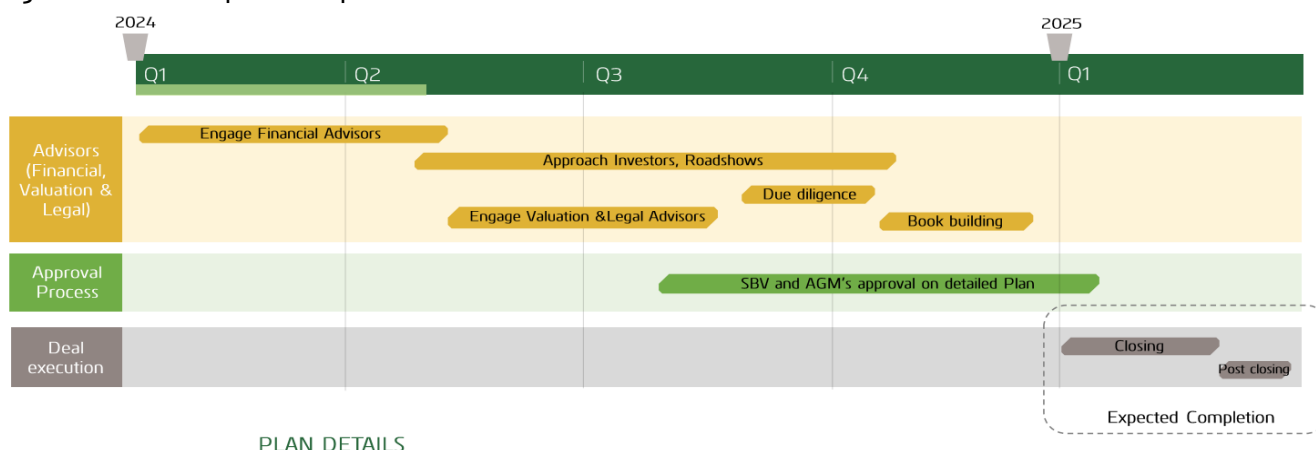
Source: Vietcombank, KB Securities Vietnam

VCB guided for its 2024 PBT to rise by at least 10% YoY

VCB released its business plan for 2024 as follows: total assets up by at least 8%, credit up at least 12% (staying within the limit assigned by the State Bank of Vietnam), the NPL ratio below 1.5%, and PBT up by at least 10%. KBSV assesses that VCB is fully capable of achieving these targets based on the following factors: (1) expected recovery in borrowing demand, underpinned by bright domestic economic outlook; (2) improved NIM thanks to low deposit interest rates, which will be fully reflected in the COF this year coupled with CASA increasing to its record high; and (3) good asset quality along with a high LLCR, significantly reducing provisioning pressure and supporting profitability.

Additionally, VCB has agreed on a plan to pay stock dividends to existing shareholders from FY22 retained earnings, with the amount spent equivalent to ~39% of the charter capital. Accordingly, the bank will deduct part of the retained earnings for funds and use the remaining amount of over VND21,680 billion for dividend payment. Furthermore, VCB is proceeding with the necessary steps to issue private shares to foreign investors and expects to get it done in 1Q2025. Specifically, VCB plans to issue around 363 million shares worth ~USD1.2 billion (~VND29,600 billion) or 6.5% of its charter capital. If successful, VCB’s capital adequacy ratio (CAR) would improve by 250–300 bps.

Fig 10. VCB – Private placement plan



Source: Vietcombank, KB Securities Vietnam

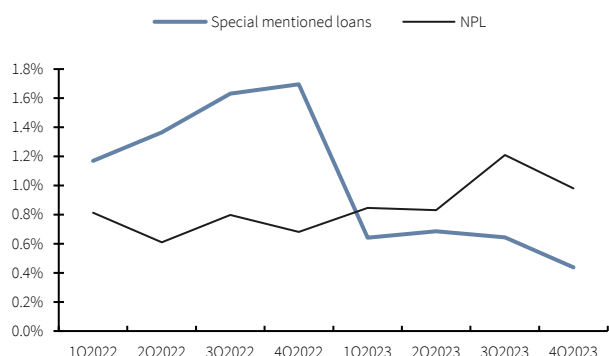
Credit growth is expected to accelerate in 2024 and reach 14%

The State Bank of Vietnam (SBV) assigned the credit limit for VCB at 16% in 2024. We believe that VCB’s lending activities will accelerate this year as the Vietnamese economy is seeing positive signs. The momentum in the first half will come from exports, public investment, and FDI inflows into Vietnam, driving borrowing demand among enterprises. Simultaneously, the expected recovery in consumer demand in the year-end period will help to drive retail lending. Additionally, as a state-owned bank with low interest rates, VCB will have a competitive advantage to enhance lending in light of the economic rebound. Therefore, we forecast 2024F credit growth to exceed VCB’s objective and reach 14%.

VCB took the lead in terms of asset quality

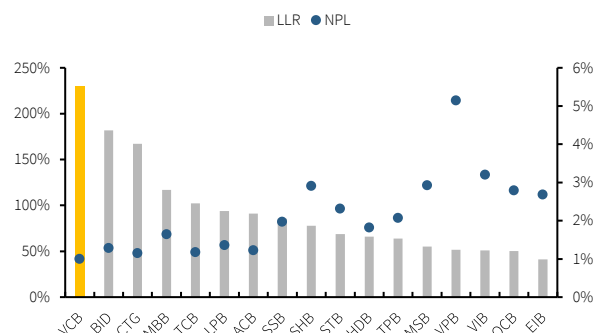
The NPL ratio of VCB improved well in 4Q2023, down to 0.98% from 1.21% in 3Q2023. Consequently, VCB took the lead regarding asset quality, with a high LLCR of 230%. We believe that the bank’s asset quality will slightly improve in 2024 as the NPL ratio is declining, while the ratio of special mentioned loans peaked in 2Q2023. Especially amid more stable macroeconomic conditions, the expected extension of Circular 02 will reduce the risk of rising NPL ratio for VCB. VCB’s provision buffer will likely remain strong in the coming years as the bank prioritizes safety, and the LLCR will be kept above 200%.

Fig 11. VCB – Special mentioned loan & NPL ratios



Source: Vietcombank, KB Securities Vietnam

Fig 12. Vietnam – LLCR, NPL ratio across banks



Source: Vietnamese banks, KB Securities Vietnam

Forecast & Valuation

Table 13. VCB – 2023A–2025F business results

(VNDbn)	2023A	2024F	%YoY 2024	2025F	%YoY 2025	KBSV's comments
Net interest income (NII)	53,621	61,592	14.87%	73,802	19.82%	Our 7% upward revision compared to the previous projection is due to the fact that we lowered our assumption for 2024F NIM by 8bps. Net fee and commission income should improve in line with the upturn in GDP growth.
Net fee income (NFI)	5,780	6,759	16.93%	7,232	7.00%	
Total operating income (TOI)	67,723	77,665	14.68%	91,638	17.99%	
Provision expenses	(4,565)	(7,530)	64.96%	(8,670)	15.13%	We believe that VCB will continue to set aside high provisions for customer loans in 2024–2025 and reverse interbank loans to support earnings growth.
NPAT	33,054	36,537	10.53%	43,282	18.46%	
NIM	3.00%	3.18%	+18bps	3.28%	+10bps	NIM should improve thanks to low deposit interest rates, which will be fully reflected in the COF. Meanwhile, lending interest rates will unlikely move lower.
Average earnings yield	6.04%	5.83%	-21bps	5.87%	+4bps	
Average cost of funds	3.41%	2.96%	-44bps	2.92%	-4bps	
CIR	32.36%	31.50%	-86bps	31.50%	+0bps	
NPL	0.98%	0.95%	-3bps	0.90%	-5bps	
Total assets	1,839,223	2,084,699	13.35%	2,470,292	18.50%	
Owner's equity	168,543	198,351	17.69%	273,035	37.65%	

Source: KB Securities Vietnam

We recommend BUY for VCB with a target price of VND109,100/share

We combine two valuation methods, P/B and residual income, to determine a fair price for VCB.

(1) P/B method:

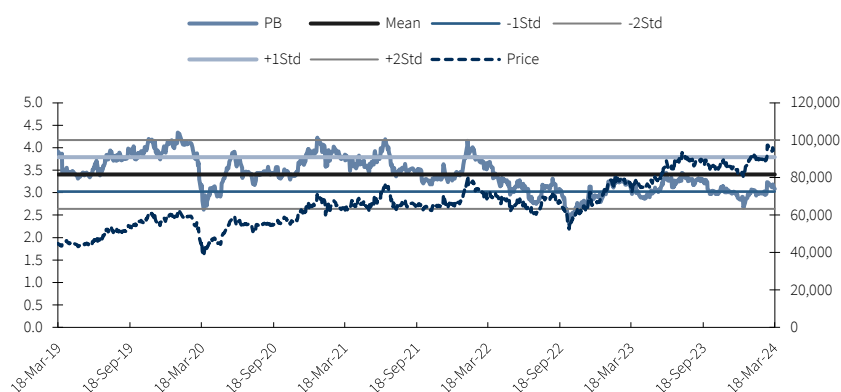
Currently, VCB is trading at a P/B of 3.1x. Given credit growth expected to accelerate in 2024 along with VCB's leading position in terms of asset quality, we give VCB a target P/B of 3.8x for 2024F, equaling +1Std of the average P/B from 2018 to the present.

(2) Residual income method:

Additionally, we incorporate the residual income method to reflect systemic risks and long-term expectations.

Combining the two valuation methods with a 50–50 ratio, we revise the target price for VCB stock in 2024F to VND109,100 per share, 17.3% higher than the closing price on March 18, 2024.

Fig 14. VCB – Historical P/B & share price performance in 2019–2024 (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 15. VCB – Residual income method

(VNDbn)	2024F	2025F	2026F	2027F	2028F
NPAT	36,537	43,282	49,140	55,646	62,796
Excessed return	16,574	18,995	16,007	20,835	21,821
Required rate of return (Re)	12%				
Growth (g)	5.0%				
Terminal value	152,377				
Present value (PV)	440,018				
Value per share	78,728				

Source: KB Securities Vietnam

Table 16. VCB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
Residual income	78,728	50%	39,364
P/B	139,418	50%	69,709
Target price			109,100

Source: KB Securities Vietnam

VCB – 2021A–2025F financials

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	42,400	53,246	53,621	61,592	73,802	Loans	934,774	1,120,287	1,241,675	1,416,390	1,616,142
Interest income	70,749	88,113	108,122	113,088	132,128	Marketable securities	2,766	1,500	2,495	2,845	3,280
Interest expense	(28,349)	(34,866)	(54,501)	(51,496)	(58,326)	Cash (ex. Reserves)	18,012	18,349	14,505	16,539	19,064
Fees & commissions	7,407	6,839	5,780	6,759	7,232	Interest earning assets	1,386,624	1,759,898	1,818,192	2,059,132	2,440,537
Other non-interest income	2,393	2,054	2,272	2,130	1,883	Fixed assets & other assets	39,941	71,157	41,047	46,942	54,074
Total operating income	56,724	68,083	67,723	77,665	91,638	Total assets	1,414,673	1,813,815	1,839,223	2,084,699	2,470,292
SG&A expenses	(17,574)	(21,251)	(21,915)	(24,465)	(28,866)	Total liabilities	1,135,324	1,243,468	1,395,695	1,591,439	1,834,398
Pre-provisioning OP	39,149	46,832	45,809	53,201	62,772	Customer deposits	17,395	25,341	20,031	26,485	20,294
Provision for credit losses	(11,761)	(9,464)	(4,565)	(7,530)	(8,670)	Borrowings & call money/repos	1,271,945	1,568,635	1,631,238	1,842,645	2,147,971
Other income	3,100	2,928	4,050	3,043	2,510	Interest bearing liabilities	33,610	109,534	39,442	43,704	49,286
Other expense	(707)	(874)	(1,778)	(913)	(628)	Other liabilities	1,305,555	1,678,169	1,670,680	1,886,349	2,197,257
Other expense	27,389	37,368	41,244	45,671	54,102	Total liabilities	37,089	47,325	55,891	55,891	59,524
Pre-tax income	(5,450)	(7,449)	(8,189)	(9,134)	(10,820)	Charter capital	4,995	4,995	4,995	4,996	36,363
Income tax expense	21,939	29,919	33,054	36,537	43,282	Capital surplus	48,434	60,733	85,174	121,687	161,372
NP	(20)	(20)	(21)	(23)	(26)	Retained earnings	87	88	94	94	94
Minority interest profit	21,919	29,899	33,033	36,513	43,256	Minority interest	109,117	135,646	168,543	205,057	279,742
Parent NP						Total shareholders' equity					

Financial Indicators						Valuation					
(%)	2021	2022	2023	2024F	2025F	(VND, X, %)	2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	21.6%	24.4%	21.7%	19.6%	17.9%	EPS	5,910	6,318	5,910	6,533	7,267
ROA	1.6%	1.9%	1.8%	1.9%	1.9%	BVPS	29,421	28,663	30,156	36,689	46,997
Pre-provision ROE	30.9%	30.6%	24.1%	22.8%	20.7%	Tangible BVPS	28,592	28,068	29,692	36,232	46,574
Pre-provision ROA	2.3%	2.3%	2.0%	2.2%	2.2%	Valuations					
Net interest margin (NIM)	3.2%	3.4%	3.0%	3.2%	3.3%	PER	15.7	14.7	15.7	14.2	12.8
Efficiency						PBR	3.2	3.2	3.1	2.5	2.0
Pure Loan to deposit ratio	84.6%	92.1%	91.0%	91.0%	90.0%	Dividend yield	1.3%	0.0%	0.0%	0.0%	0.6%
Cost-income ratio	31.0%	31.2%	32.4%	31.5%	31.5%	ROE	21.6%	24.4%	21.7%	19.6%	17.9%
Growth						Capital Adequacy					
Asset growth	6.7%	28.2%	1.4%	13.3%	18.5%	CAR	9.0%	8.9%	>8%	>8%	>8%
Loan growth	13.9%	19.8%	10.8%	14.1%	14.1%	Asset Quality					
PPOP growth	18.5%	19.6%	-2.2%	16.1%	18.0%	NPL ratio (substandard)	0.6%	0.7%	1.0%	1.0%	0.9%
Parent NP growth	18.8%	36.4%	10.5%	10.5%	18.5%	Coverage ratio (substandard)	420.5%	316.8%	230.3%	231.3%	234.3%
EPS growth	18.8%	6.9%	-6.4%	10.5%	11.2%	NPL ratio (precautionary)	1.0%	1.0%	1.4%	1.4%	1.3%
BVPS growth	16.0%	-2.6%	5.2%	21.7%	28.1%	Coverage ratio (precautionary)	267.6%	208.2%	159.2%	162.7%	162.2%

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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