

# VPBank (VPB)

## Credit expansion to drive growth in 2024

March 22, 2024

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### 4Q2023 PBT reached VND2,708 billion, up 95.8% YoY

In the fourth quarter of 2023, Vietnam Prosperity Bank (VPB) achieved net interest income (NII) of VND11,042 billion (+25.0% QoQ, +7.4% YoY). Provision expenses reached the highest level of the year at VND7,018 billion (+41.8% QoQ, -4.1% YoY), resulting in PBT of VND2,708 billion (-13.1% QoQ, +95.8% YoY). For the entire year 2023, PBT was VND10,987 billion, down 48.2% YoY.

### Credit growth should remain high for the whole year 2024

KBSV expects VPB to achieve 25% credit growth based on: (1) a high capital adequacy ratio (CAR) following capital increase; (2) rising credit demand from both retail and corporate customers on low interest rates; and (3) economic rebound.

### NIM is expected to slowly recover as IEA yield will also be adjusted downward

NIM should improve in 2024, backed by: (1) reduced funding costs thanks to low deposit interest rates along with the maturity of high interest rate-bearing term deposits and (2) improved CASA. However, NIM will unlikely increase significantly due to (1) pressure to reduce lending rates to stimulate borrowing demand and (2) potential credit risk associated with the loan and investment portfolios.

### Provisioning pressure will remain elevated in 2024

Although asset quality has improved, provisioning pressure remains elevated in 2024, given: (1) a low loan loss coverage ratio (LLCR); (2) rapid credit expansion amid a weak economy; and (3) a high proportion of outstanding real estate loans.

### We recommend BUY for VPB with a target price of VND24,900/share

Based on valuation results, business prospects, and potential risks, we recommend BUY for VPB. The target price for 2024F is VND24,900/share, 32.4% higher than the closing price on March 22, 2024.

**Buy** maintain

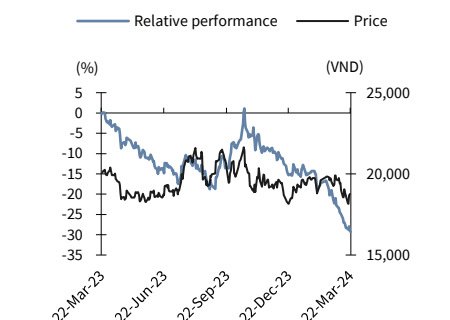
<b>Target price</b>	<b>VND24,900</b>
Upside	32.4%
Current price (Mar 22, 2024)	VND18,800
Consensus target price	VND23,000
Market cap (VNDbn/USDbn)	149,157/6.0

<b>Trading data</b>	
Free float	53.43
3M avg trading value (VNDbn/USDmn)	322/13.0
Foreign ownership	27.57
Major shareholder	SMBC (15.01%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	-2	2	-6	-6
<b>Relative</b>	-7	-13	-17	-29

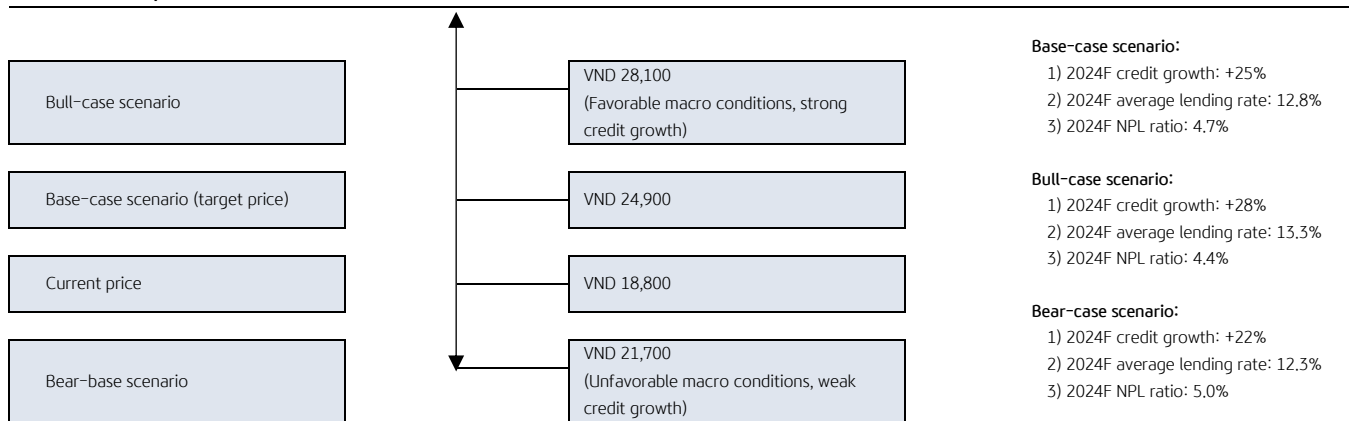
#### Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net interest income (VNDbn)	41,021	38,175	54,020	71,940
PPOP (VNDbn)	43,681	35,832	50,252	66,289
NPAT (VNDbn)	18,168	10,053	13,720	18,117
EPS (VND)	2,694	1,267	1,729	2,283
EPS growth (%)	4%	-53%	36%	32%
PER (x)	7.0	14.8	10.9	8.2
Book value per share (VND)	15,349	17,639	19,368	21,652
PBR (x)	1.22	1.07	0.97	0.87
ROE (%)	17.8	7.1	9.5	11.7
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: Bloomberg, KB Securities Vietnam

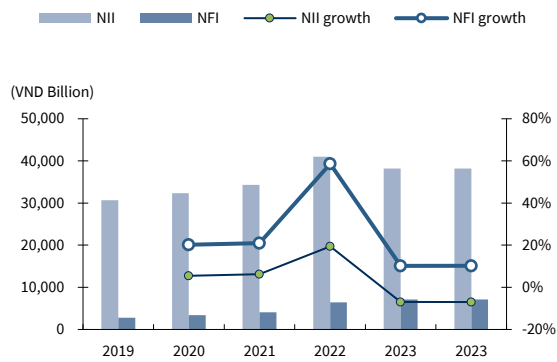
## Business performance

**Table 1. VPB – 4Q22–4Q23 business results**

(VNDbn)	4Q2022	3Q2023	4Q2023	+/-%QoQ	+/-%YoY	KBSV's comments
Net interest income (NII)	10,283	8,837	11,042	25.0%	7.4%	Net interest income improved YoY mainly thanks to credit growth of 25.6% YTD while NIM decreased YoY as a result of increased funding costs.
Net fee and commission income	1,881	1,889	1,881	-0.4%	0.0%	In 4Q2023, settlement services saw a 4.2% YoY increase in earnings while net gains from bancassurance dropped by 12.9% YoY. Cumulatively for the whole year 2023, net fee and commission income increased by 10.2% YoY, driven by settlement services (+31.0% YoY).
Other income	604	536	418	-22.0%	-30.8%	FX trading recorded a loss of VND185 billion (30.4% lower than the loss recorded in 4Q2022) while the securities trading & investment generated VND3 billion. Net other income improved QoQ but remained relatively low from a year ago (+21.2% QoQ, -33.1% YoY). Recovery income from written-off bad debts jumped by 50.5% QoQ while derivative activities saw a loss of VND122 billion.
Total operating income (TOI)	12,768	11,262	13,341	18.5%	4.5%	
Operating expenses	(4,064)	(3,195)	(3,615)	13.2%	-11.0%	
Pre-provision operating profit (PPOP)	8,703	8,067	9,726	20.6%	11.7%	
Provision expenses	(7,320)	(4,950)	(7,018)	41.8%	-4.1%	Provision expenses increased by 41.8% QoQ mainly due to the parent bank promoting provisioning of VND4,826 billion (+74.8% QoQ, +80.3% YoY). Cumulatively for the whole year 2023, provisions for credit losses were VND24,844 billion, up 10.6% YoY.
PBT	1,383	3,117	2,708	-13.1%	95.8%	
NPAT-MI	2,258	2,425	2,030	-16.3%	-10.1%	
Credit growth	25.0%	17.1%	25.6%	8.4 ppts	0.5 ppts	Credit growth of the parent bank reached 31.8% (+3.5 ppts YoY). Of that, retail loans increased by 25.9% YoY with motivation from corporate loans (+43% YoY) and credit card loans (+29.2% YoY) while mortgage loans rose slightly by 3.2% YoY. FE Credit's estimated customer loan balance shrank by 14.6% YTD due to bad debt handling and stricter risk management practices towards consumer loan disbursement activities in the context of a challenging economy.
Deposit growth	14.1%	27.0%	27.8%	0.8 ppts	13.7 ppts	The main driving force came from customer deposit growth (+45.9% YTD). VPB is the bank with the second highest deposit growth in the system, after HDBank (HDB, +46.8% YTD)
NIM	7.50%	5.49%	5.60%	10 bps	-190 bps	NIM had a slight improvement (up 10bps QoQ) mainly because funding costs declined by 10.5% QoQ following the cooldown of deposit interest rates along with the maturity of high interest-bearing deposits. CASA continued to improve, reaching 17.4% (+64bps QoQ).
Average earnings yield	11.37%	11.36%	11.23%	-12 bps	-14 bps	
Average cost of funds	4.43%	6.69%	6.62%	-7 bps	218 bps	
CIR	31.8%	28.4%	27.1%	-1.2 ppts	-4.7 ppts	
NPL ratio	5.73%	5.74%	5.01%	-73 bps	-72 bps	The NPL ratio of the parent bank was down 76bps QoQ to 3.20%, while that of FE Credit was estimated at 19.86%, up 88bps QoQ.

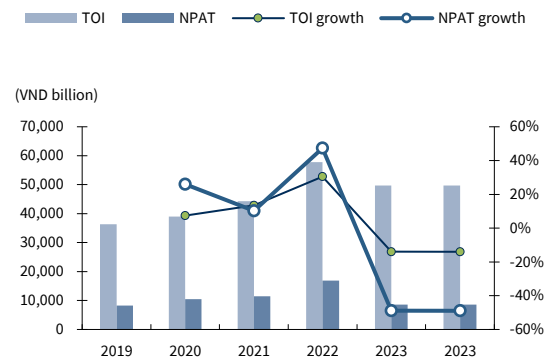
Source: VPBank, KB Securities Vietnam

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



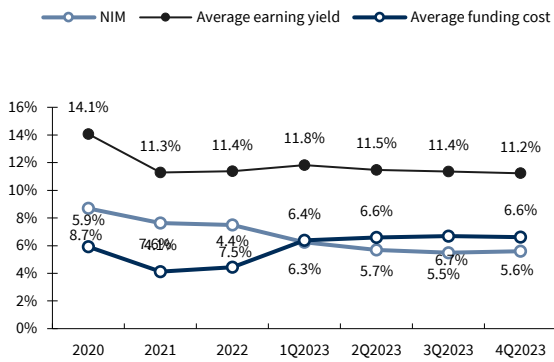
Source: VPBank, KB Securities Vietnam

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



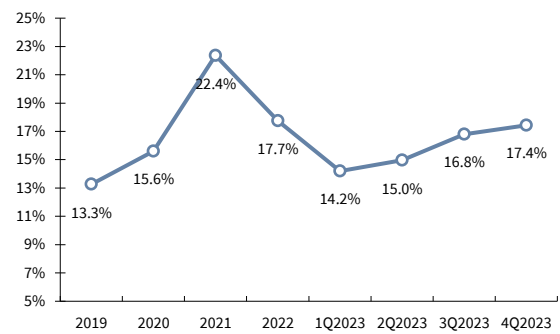
Source: VPBank, KB Securities Vietnam

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



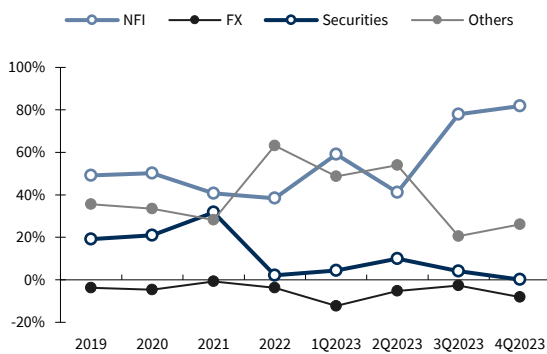
Source: VPBank, KB Securities Vietnam

Fig 5. VPB – CASA ratio (%)



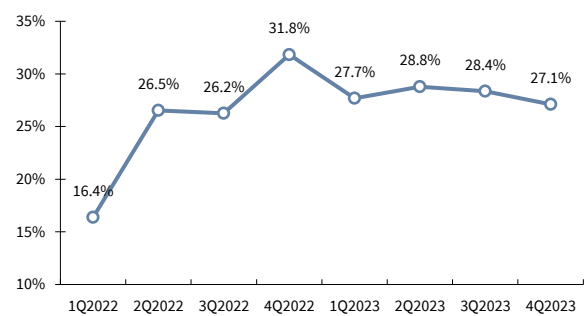
Source: VPBank, KB Securities Vietnam

Fig 6. VPB – NOII breakdown (%)



Source: VPBank, KB Securities Vietnam

Fig 7. VPB – CIR in 2022–2023 (%)



Source: VPBank, KB Securities Vietnam

**Credit growth should remain high for the whole year 2024**

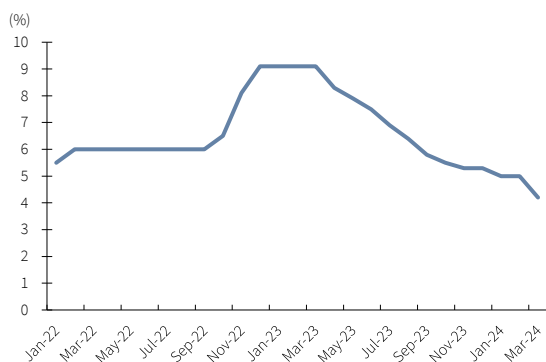
KBSV expects VPB to achieve 25% credit growth based on: (1) a high capital adequacy ratio (CAR) of 17.1% following capital increase, the highest in the industry; (2) rising credit demand from both retail and corporate customers on low interest rates; and (3) economic rebound.

**NIM is expected to slowly recover as IEA yield will also be adjusted downward**

We maintain our assumption that VPB's NIM will improve in 2024, underpinned by the reduction in funding costs due to: (1) the maturity of high-interest funding in late 2022 and early 2023 and (2) abundant liquidity with low deposit interest rates. As of early March 2024, VPB's 12-month term deposit interest rate was 4.2% (lower than December 2023's 5.3%), the lowest level in recent years; and (3) improved CASA thanks to corporate customers returning to normal operations.

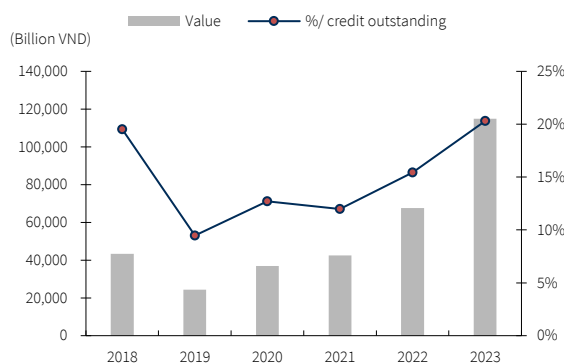
However, there are still some constraints on NIM growth, including: (1) reduced lending rates to stimulate credit growth amidst weak credit demand; (2) potential credit risk associated with the loan and investment portfolios. A high proportion of outstanding real estate loans, particularly project loans (+70% YoY), accounting for 20.3% of total customer loans, helps VPB maintain high credit growth but poses significant credit risks amid numerous challenges faced by the property market.

**Fig 8. VPB – 12M term deposit interest rate (<VND3 billion) (%)**



Source: VPBank, KB Securities Vietnam

**Fig 9. VPB – Outstanding real estate loans and proportion (VNDbn, %)**



Source: VPBank, KB Securities Vietnam

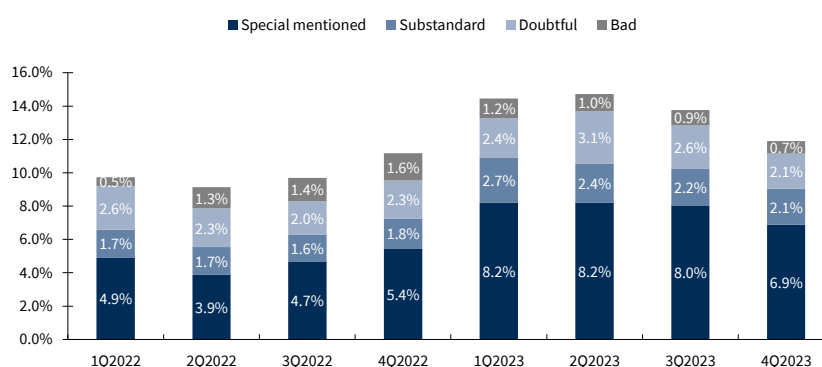
## Provisioning pressure will remain elevated in 2024

In 4Q2023, VPB's NPL ratio reached 5.01%, down 73bps QoQ thanks to a decline across debt groups, particularly doubtful debts (down 48bps QoQ). The parent bank's NPL ratio stood at 3.2% (-76bps QoQ), while FE credit's NPL ratio was estimated at 19.86% (+88bps QoQ). In our estimation, consolidated NPL formation increased marginally in 4Q2023, reaching 0.11%, the lowest in recent quarters, and restructured loans under Circular 02/2023/NHNN also decreased to 1.08% from 2.8% in 3Q2023, indicating VPB's better asset quality control. However, in 4Q2023, VPB recorded VND4.3 trillion in VAMC bond balance (equivalent to 0.7% of total customer loans).

From our perspective, the provisioning pressure will remain elevated in 2024 to maintain the LLCR at 47–50% and the NPL ratio below 5% as: (1) Accelerating credit expansion amidst a challenging economy will pose the risk of rising NPLs; (2) the LLCR remains low at 51%; and (3) a high proportion of outstanding real estate loans will pose significant risks, with project loans and mortgage loans accounting for 19.5% and 17.2% of the parent bank's total customer loan book.

Asset quality improved, with a decline across debt groups, particularly doubtful debts. Consolidated NPL formation was 0.11%, continuing the downward trend of 3Q2023 after six consecutive quarters at a high level of over 1%.

Fig 10. VPB – Debt groups (%)



Source: VPBank, KB Securities Vietnam

Fig 11. Vietnam – Special mentioned loan & NPL ratio across banks (%)

	% NPL	QoQ	% Group 2	QoQ	Provision (Billion VND)	LLCR
VPB	5.01%	-0.73%	6.89%	-1.14%	-14,649	51.7%
VIB	3.14%	-0.54%	5.57%	-0.88%	-4,271	51.0%
SHB	2.85%	-0.36%	1.27%	-0.67%	-9,700	77.7%
TPB	2.05%	-0.93%	2.81%	-0.96%	-2,676	63.7%
MSB	2.87%	-0.07%	1.77%	-1.47%	-2,363	55.2%
LPB	1.34%	-1.46%	1.13%	-0.11%	-3,458	93.8%
HDB	1.79%	-0.47%	5.24%	0.20%	-4,054	65.8%
STB	2.28%	0.07%	0.73%	0.01%	-7,562	68.8%
EIB	2.12%	-0.21%	1.46%	-0.26%	-319	74.0%
MBB	1.60%	-0.28%	2.28%	-0.69%	-11,470	117.0%
BID	1.25%	-0.35%	1.58%	-0.28%	-40,420	181.8%
CTG	1.13%	-0.24%	1.55%	-0.82%	-27,773	167.2%
TCB	1.16%	-0.20%	0.86%	-0.40%	-6,128	102.1%
VCB	0.98%	-0.23%	0.44%	-0.21%	-28,684	230.3%
ACB	1.21%	0.14%	0.65%	-0.22%	-5,367	91.2%

Source: Vietnamese banks, KB Securities Vietnam

## Forecast & Valuation

**Table 12. VPB – 2023A–2025F business results**

(VNDbn)	2023A	2024F	% YoY 2023	2025F	%YoY 2024	KBSV's comments
Net interest income (NII)	38,175	54,020	41.5%	71,940	33.2%	The main growth driver for NII growth in 2024 – 2025 comes from NIM improvement and high credit growth.
Net fee and commission income	7,096	10,230	44.2%	12,822	25.3%	
Total operating income (TOI)	49,743	68,838	38.4%	90,806	31.9%	
Provision expenses	(24,844)	(32,854)	32.2%	(42,394)	29.0%	We maintain our forecast for provision expenses compared to the previous assumption due to a cautious view on asset quality in 2024.
PBT	8,641	13,919	61.1%	19,116	37.3%	
NIM	5.60%	6.26%	66bps	6.96%	70bps	We lower our forecast for NIM in 2024F by 43bps compared to the previous projection as we assess that VPB may have to cut lending rates to boost credit demand.
Average earnings yield	11.23%	10.61%	-62bps	11.04%	43bps	
Average cost of funds	6.62%	5.14%	-148bps	4.76%	-38bps	
CIR	28.0%	27.0%	-97bps	27.0%	0bps	
NPL ratio	5.01%	4.70%	-31bps	4.40%	-30bps	2024F NPL ratio is adjusted down by 80bps compared to the old assumption following better-than-expected improvement in asset quality in 2023 along with VPB stepping up bad debt handling in 2024.
Total assets	817,700	1,001,112	22.4%	1,175,117	17.4%	
Owner's equity	139,947	153,666	9.8%	171,783	11.8%	

Source: KB Securities Vietnam

### We recommend BUY for VPB with a target price of VND24,900/share

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

#### (1) P/B method:

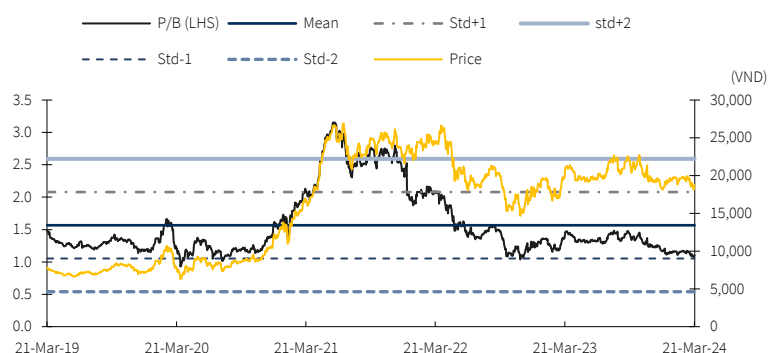
We maintain our projected P/B ratio for 2024F at 1.05x, equivalent to -1 Std (standard deviation) of VPB's 5-year average P/B. This reflects concerns about uncertain economic outlook affecting VPB's asset quality in 2024.

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

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

Based on these two valuation methods with a 50–50 ratio, we arrive at a final fair price for VPB for 2024F of VND24,900 per share, representing a 32.4% upside compared to the closing price on March 22, 2024.

Fig 15. VPB – Historical P/B &amp; share price performance in 2019–2024 (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 16. VPB – Residual income valuation

(VNDbn)	2024F	2025F	2026F
NPAT	13,919	19,116	27,335
Excessed return	-4,778	-1,414	4,584
Required rate of return (r)	13.36%		
Growth (g)	5.0%		
Terminal value	57,960		
2024-end fair value	233,060		
<b>Value per share</b>	<b>29,375</b>		

Source: KB Securities Vietnam

Table 17. VPB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
P/B	20,337	50%	10,168
Residual income	29,375	50%	14,688
<b>Target price</b>			<b>24,900</b>

Source: KB Securities Vietnam



## Table

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Net interest income	34,349	41,021	38,175	54,020	71,940	Loans	345,390	424,662	551,622	692,083	827,994
Interest income	50,827	62,200	76,557	91,583	114,128	Marketable securities	6,971	7,793	12,326	14,718	17,661
Interest expense	(16,478)	(21,179)	(38,383)	(37,563)	(42,187)	Cash (ex. Reserves)	2,346	2,658	2,285	2,729	3,274
Fees & commissions	4,059	6,438	7,096	10,230	12,822	Interest earning assets	506,371	587,418	776,000	950,258	1,116,571
Other non-interest income	2,808	10,584	4,646	4,768	6,230	Fixed assets & other assets	47,877	54,029	53,541	63,425	76,262
Total operating income	44,301	57,797	49,743	68,838	90,806	Total assets	547,409	631,013	817,700	1,001,112	1,175,117
SG&A expenses	(10,719)	(14,116)	(13,912)	(18,586)	(24,518)	Customer deposits	241,837	303,151	442,368	528,238	633,886
Pre-provisioning OP	33,583	43,681	35,832	50,252	66,289	Borrowings & call money/repos	81,400	63,762	47,810	63,430	80,149
Provision for credit losses	(19,219)	(22,461)	(24,844)	(32,854)	(42,394)	Interest bearing liabilities	446,310	509,092	650,653	811,429	960,346
Other income	5,469	13,017	7,894	7,012	9,162	Other liabilities	14,821	18,419	27,100	36,016	42,988
Other expense	(2,661)	(2,433)	(3,248)	(2,244)	(2,932)	Total liabilities	461,131	527,511	677,753	847,445	1,003,335
Pre-tax income	14,364	21,220	10,987	17,399	23,895	Charter capital	45,057	67,434	79,339	79,339	79,339
Income tax expense	(2,887)	(4,311)	(2,346)	(3,480)	(4,779)	Capital surplus	77	-	23,993	23,993	23,993
NP	11,477	16,909	8,641	13,919	19,116	Retained earnings	22,439	16,752	19,149	32,869	50,985
Minority interest profit	244	1,259	1,412	(200)	(1,000)	Capital adjustments	-	-	-	-	-
Parent NP	11,721	18,168	10,053	13,720	18,117	Total shareholders' equity	86,278	103,502	139,947	153,666	171,783

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	16.5%	17.8%	7.1%	9.5%	117%	EPS	2,601	2,694	1,267	1,729	2,283
ROA	2.4%	2.9%	12%	15%	18%	BVPS	19,149	15,349	17,639	19,368	21,652
Pre-provision ROE	38.6%	36.8%	23.4%	27.4%	32.6%	Tangible BVPS	19,003	15,225	17,545	19,272	21,553
Pre-provision ROA	5.6%	5.9%	3.9%	4.4%	4.9%	<b>Valuations</b>					
Net interest margin (NIM)	7.6%	7.5%	5.6%	6.3%	7.0%	PER	7.2	7.0	14.8	10.9	8.2
<b>Efficiency</b>						PBR	10	12	1.1	10	0.9
Pure Loan to deposit ratio	146.9%	144.6%	128.0%	134.0%	134.0%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Cost-income ratio	24.2%	24.4%	28.0%	27.0%	27.0%	ROE	16.5%	17.8%	7.1%	9.5%	11.7%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	30.6%	15.3%	29.6%	22.4%	17.4%	CAR	14.3%	14.9%	17.1%	>14%	>14%
Loan growth	20.6%	23.0%	29.9%	25.5%	19.6%	<b>Asset Quality</b>					
PPOP growth	21.5%	30.1%	-18.0%	40.2%	31.9%	NPL ratio (substandard)	4.6%	5.7%	5.0%	4.7%	4.4%
Parent NP growth	12.6%	55.0%	-44.7%	36.5%	32.0%	Coverage ratio (substandard)	60.9%	54.4%	51.5%	47.4%	57.3%
EPS growth	-36.8%	3.6%	-53.0%	36.5%	32.0%	NPL ratio (precautionary)	9.3%	11.2%	11.9%	10.1%	9.4%
BVPS growth	-8.2%	-19.8%	14.9%	9.8%	11.8%	Coverage ratio (precautionary)	29.9%	28.0%	21.7%	22.0%	26.8%

Source: VPBank, KB Securities Vietnam

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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	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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