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Financials Analyst Nguyen Thi Thu Huyen  
huyenntt@kbsec.com.vn  
Head of Equity Research (Ho Chi Minh)  
Harrison Kim  
harrison.kim@kbf.com

# Vietcombank (VCB)

## Hinting at 2Q pretax earnings 32% ahead of consensus

### Hinting at 2Q pretax earnings 32% ahead of consensus; new shares; & higher NPLs

— Main takeaways from the annual general shareholders' meeting include: 1) guiding for flat pretax earnings in 1H; 2) approval of the 6.5% new share issue; and 3) rising non-performing loans to 1.5% by year-end from 0.8% now. The flat earnings guidance from 1H19's VND11,303 billion implies 2Q pretax earnings of VND6,077 billion or 32% ahead of the VND4,620 billion consensus. Approval of the new share offering is particularly good news and highlights VCB's unique position of being a large state-owned lender with room under the 30% foreign-ownership limit to allow the bank to take full advantage of its high trading multiple to increase Tier 1 capital by an additional 25%. But management also warned that the credit environment remains weak, with year-to-date credit growth still sluggish at only 3.4% as of June 25 (albeit higher than the industry average). Moreover, the bank expects an inevitable rise in non-performing loans to the 1.5% level vs 0.8% now due to the coronavirus. COVID-19 relief loans that have been reviewed and restructured amounted to VND14 trillion, with expectations for another VND10 trillion bringing the total to VND24 trillion or 0.3% of 1Q's total outstanding loans. Shareholders also approved 2020E pretax earnings guidance for 10% growth to VND25,435 billion and a slowdown in annual credit growth to 10% from 2019's 16%.

### May still issue VND800 cash dividend for 2019 & maintain this level of payout for 2020E

— Management has not ruled out a possible VND800 cash dividend for 2019 performance and will decide sometime after first completing the 18% stock dividend for 2018 performance in 3Q or 4Q. Management stated that it will need to decide whether to pay the cash dividend or reinvest all of its capital for operations given the tougher environment this year but will strive to pay a VND800 dividend for 2020E performance. The 6.5% new share issue will also likely occur after the 18% stock dividend is completed. There was no mention of any additional strategic investors and management merely reiterated expectations for Mizuho to maintain its stake at the 15% level or increase it to 20% during the private placement. At the current share price and price-to-book multiple of 3.6x, the bank has the potential to increase Tier 1 capital by 25%.

### Q&A session: fees become strategic priority in 2020E–2025E business plan

— VCB's 2020E strategic initiatives are: 1) prudent and sustainable credit activities; 2) increasing the proportion of fee income; 3) broadening its deposit base to include more retail customers; and 4) investing further in the digital platform to improve product offerings to customers. Most importantly, the bank expects its fees to improve after signing the *bancassurance* exclusive agreement with FWD for, with upfront fees the highest paid to any bank in Vietnam.

## KB SECURITIES VIETNAM RESEARCH

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**Head of Research – Nguyen Xuan Binh**

binhnx@kbsec.com.vn

### **Macro/Strategy**

**Head of Macro & Strategy – Tran Duc Anh**

anhtd@kbsec.com.vn

**Macro Analyst – Thai Thi Viet Trinh**

trinhhtt@kbsec.com.vn

**Market Strategist – Le Anh Tung**

tungla@kbsec.com.vn

### **Equity (Hanoi)**

**Head of Equity Research (Hanoi) – Duong Duc Hieu**

hieudd@kbsec.com.vn

**Information Technology & Logistics Analyst – Nguyen Anh Tung**

tungna@kbsec.com.vn

**Property Analyst – Pham Hoang Bao Nga**

ngaphb@kbsec.com.vn

**Power & Construction Material Analyst – Le Thanh Cong**

conglt@kbsec.com.vn

**Financials Analyst – Nguyen Thi Thu Huyen**

huyenntt@kbsec.com.vn

### **Equity (Ho Chi Minh)**

**Head of Equity Research (Ho Chi Minh) – Harrison Kim**

harrison.kim@kbf.com

**Consumer & Retailing Analyst – Dao Phuc Phuong Dung**

dungdpp@kbsec.com.vn

**Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh**

danhnt@kbsec.com.vn

**Oil & Gas & Chemicals Analyst – Nguyen Vinh**

vinhn@kbsec.com.vn

### **Research Marketing**

**Korea Marketing Analyst – Seon Yeong Shin**

shin.sy@kbsec.com.vn

## KB SECURITIES VIETNAM (KBSV)

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### Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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

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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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