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Vietnam International (VIB)

Strong 1Q credit growth masks rising credit costs

1Q earnings jump 33% YoY but strong credit growth masks rising credit costs

— 1Q earnings up 32.8% YoY to VND860 billion as management uses the bond portfolio to sustain strong overall credit growth and minimize the impact to the bottom line from higher provisioning costs. Credit growth remained strong at 36.0% YoY (+13.9% QoQ) vs 4Q's 25.9% alongside still robust loan growth that only showed modest sign of slowdown to 32.3% YoY (+4.4% QoQ) from 4Q's 34.4%. Management kept credit growth high – and minimized pressure on an already high loan-to-deposit ratio at 109% – by aggressively expanding the bond portfolio by 58% QoQ (albeit half was put into government bonds). The local bond market has been active since the start of the year as many companies are eager to raise funds before new rules put in place three-month moratoriums on new bond issues from June.

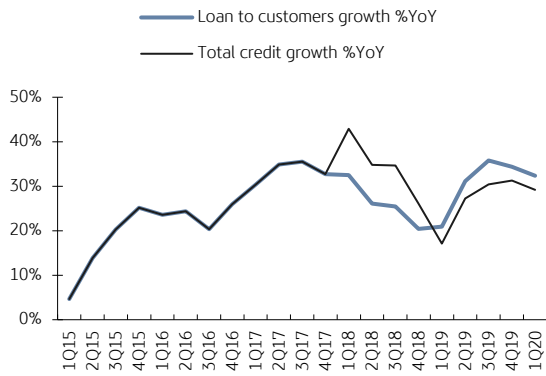
Strong volume growth masks weaker credit quality & understates credit costs

— Strong 29%-plus credit growth kept asset quality ratios in check – with the ratio of substandard & below loans only rising to 2.19% from 4Q19's 1.96% – and also suppressed any rise in the broader precautionary & below ratio to 3.79% from 4Q's 3.08%. This allowed management to keep credit costs largely flat at VND156 billion (–0.3% YoY and up 82.6% QoQ from a low base in 4Q) or 0.12% of loans vs the 0.13% average seen for all of 2019. Reserve coverage for substandard & below bad loans only dropped to 47.3% from 4Q's 49.6% and precautionary & below loans only fell to 27.3% from 4Q's 31.6%.

Fees weaker and staff expansion boosts operating costs

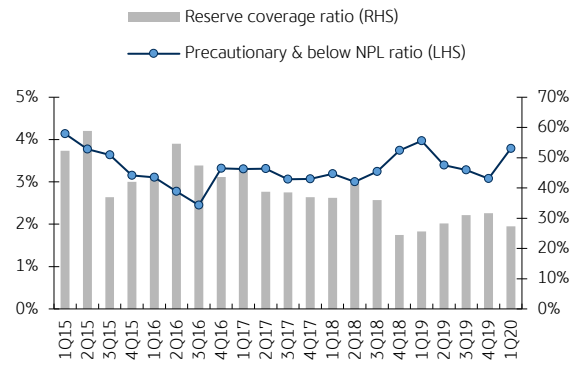
— Fees came under pressure after all banks agreed to waive fees during the coronavirus pandemic and were down 21% QoQ (up 18% YoY but this can largely be attributed to the low base during the same period last year). The bank continues to increase staff as part of its expansion plans, which led to the rise in the cost-to-income rising to 45.5% from 43.6% during 1Q in 2019.

Fig 1. VIB - Loan to customers & total credit growth, 1Q15-1Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

Fig 2. VIB - Precautionary & below non-performing loan ratio & reserve coverage ratio, 1Q15-1Q20 (%)



Source: Company reports & 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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