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VPBank (VPB)

Bonds drive strong 1Q performance

1Q pretax earnings surge by 63% YoY on aggressive bond purchases

— 1Q pretax profit hit VND2,911 billion (up 63% YoY) as management aggressively expanded the bond portfolio to boost overall credit growth. Total credit grew by 18.8% YoY vs 4Q's 17.9% YoY despite customer loan growth slowing to 14.0% YoY vs 4Q's 16.1% YoY. Aggressive purchases of corporate bonds allowed overall credit growth to remain high and increased the bond portfolio by 41% YoY (59% QoQ). Corporate bonds doubled in value and the weighting jumped by 1.5 times to 32%, while government bonds fell to 40% of the portfolio from 4Q's 45%. VPB also added an additional VND9,038 billion in bills issued by the State Bank of Vietnam, implying ample balance sheet liquidity remains.

Strong credit growth allows the bank to power through on credit provisions

— VPB's substandard & below non-performing loan ratio actually fell to 3.03% in 1Q vs 4Q's 3.42%. But the broader measure of credit quality did witness some slippage - with the precautionary & below ratio creeping higher to 8.23% vs 4Q's 8.18% - or enough for the bank to slow loan growth for the quarter. To compensate - and circumvent the high loan-to-deposit ratio at 122% despite 1Q's 15% YoY growth in customer deposits - VPB diverted abundant balance sheet liquidity to the bond market, especially after raising USD208 million (VND4,909 billion) from the International Finance Corporation during the quarter. This allowed VPB to use strong credit volumes to keep 1Q provisions to loans stable at 1.41% of loans or VND3,712 billion (+15.8% YoY, +0.5% QoQ) vs 4Q's 1.44% of loans. Coverage ratios improved for substandard & below loans to 52.0% from 4Q's 46.5% and remained stable for precautionary & below loans at 19.1% from 4Q's 19.4%.

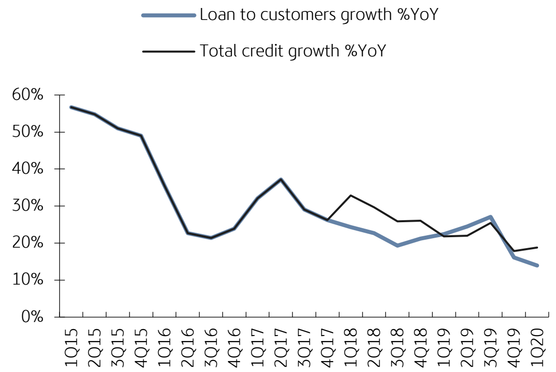
Fees unexciting with relief programs but costs fared well

— Fees were largely unexciting for the quarter and down 7% YoY to VND695 billion as all banks suspend transaction fees to support customers during the pandemic. The sharp pick up in gains from trading securities to more than four times higher than the same period last year was the most notable feature of non-interest income. Operating expenses were kept in check, with 1Q's cost-to-income ratio improving modestly to 33.1% from 33.9% last year.

Better capital management ahead with stock buybacks & redeeming international bonds

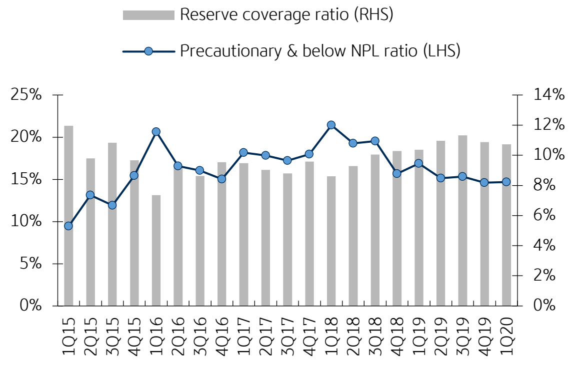
— Positive signs already being seen from management to make better use of balance sheet liquidity rather than aggressive corporate bond purchases. According to a recent news article, management seeks approval from regulators and shareholders to buyback up to 5% or 122 million of shares outstanding for VND2,500 billion and redeem USD$300 million in overseas bonds. Although little information has been provided, management may also propose the lowering of the foreign-ownership to 15% from 23% which the market may interpret as an attempt to secure a strategic investor (foreigners currently own 22.44%).

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



Source: Company reports & KB Securities Vietnam

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



Source: Company reports & KB Securities Vietnam

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Investment ratings & definitions

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