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

Vietcombank (VCB)

Soft 1Q on slower credit & higher precautionary loans

1Q pretax earnings down 11% on slower credit growth & uptick in precautionary loans

— Soft 1Q pretax earnings of VND5,223 billion were down 11% YoY after the bank began to slow overall credit growth and a pickup in precautionary loans led to higher provisions for the quarter. Credit growth slowed to 12.1% YoY in 1Q vs the 17.2% levels seen in 2019 on more cautious lending activities due to the coronavirus pandemic. Credit provisions also rose to VND2,152 billion (up 9.2% QoQ/42.9% YoY) to reflect the uptick in precautionary loans, with the precautionary & below non-performing loan ratio rising to 1.49% from 4Q's 1.11%.

Tighter underwriting & higher provisions to protect against erosion in asset quality

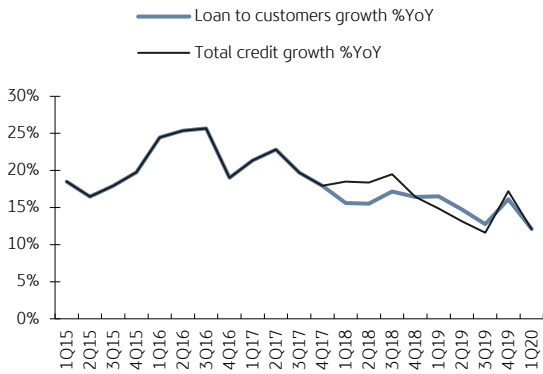
— Growth in loans to customers slowed to 12.1% YoY in 1Q compared the 16% level in 2019. Unlike some other lenders that shifted credit to more aggressive purchase of corporate bonds, VCB opted to lower loan growth and their overall credit growth to reflect weaker credit conditions. The substandard & below non-performing loan ratio only rose to 0.82% in 1Q vs 4Q's 0.78% but early signs of erosion in credit quality were seen in higher precautionary loan balances. Despite higher credit provisions that increased to 0.29% of loans vs 4Q's 0.27% and 0.22% during the same period last year, credit charges still lagged the weaker credit conditions and 1Q's reserve coverage for precautionary & below non-performing loans went flat to 129% from 4Q's 128%.

Flatter performance in fees from relief measures and costs under control

— Net fees & commissions were flat and only up 5.4% YoY vs the 20% growth levels seen in 2019 as the banks participated in the State Bank of Vietnam's COVID-19 relief efforts to cut transaction fees to support customers during the pandemic. Fee performance should improve in the coming quarters following the signing of the 15-year exclusive *bancassurance* contract on April 13th with FWD that should add upfront fees to non-interest income. Costs were largely in check for the quarter, with the cost-to-income ratio flat at 40.0% compared to the 37.3% seen during the same period last year.

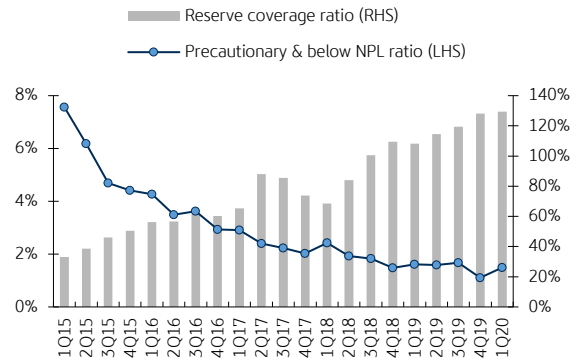


Fig 1. VCB – Loan to customers & total credit growth, 1Q15-1Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

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



Source: Company reports & KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

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)

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
Website: www.kbsec.com.vn

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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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