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1Q21 post-tax earnings reached VND2,722 billion, up 88.4% YoY

Bank for Investment & Development of Vietnam (BID) posted positive 1Q earnings at VND2,722 billion, up 88.4% YoY. Outstanding loans to customers continued to rise (+1.6% QoQ, +11.6% YoY).

1Q NIM was 2.65%, up 5bps QoQ

1Q NIM was 2.65% (-14 bps YoY, +5 bps QoQ) due to: (1) lower average output interest rate (down 97bps YoY) as BID proactively reduced loan interest rates to support businesses affected by the COVID-19 pandemic; (2) a sharp drop of 58.5% YoY in the Government and the State Bank's debt, causing the average input interest rate to decrease by only 66bps YoY.

NPL ratio was 1.76% and bad debt coverage ratio reached 107.6%

Non-performing loan (NPL) ratio in 1Q21 was flat at 1.76%, unchanged from the previous quarter. BID made provision for VND7,172 billion (+0.0% QoQ, +80.2% YoY) in 1Q, thereby raising the NPL coverage ratio to 107.6% (+19.2% QoQ).

HOLD recommendation, target price VND46,900/share

Based on valuation results, business outlook as well as possible risks, we suggest to HOLD BID shares. The target price is VND46,900 VND/share, 12.1% higher than the price on May 20, 2021.

Hold

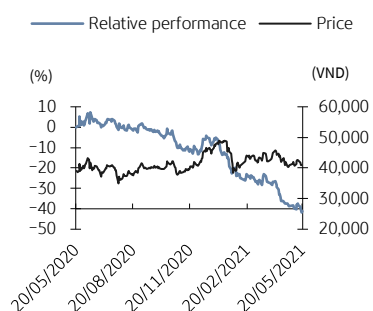
Target price	VND 46,900
Upside/downside	12.1%
Current price (May 21, 2021)	VND 41,854
Target price	VND 34,600
Mrkt cap (VNDbn)	168,321

Trading data	
Free float (%)	4.01%
Avg trading value (3M)	127/5.4
Foreign ownership (%)	17.15%
Ownership structure	State Bank (80.98%)

Share price performance				
(%)	1M	3M	6M	12M
BID	-5.0	-7.3	5.0	6.4
VNIndex	2.3	14.2	32.9	65.4

Forecast earnings & valuation

Financial year-end	2019A	2020A	2021F	2022F
Net interest income (VNDbn)	35,978	35,797	41,407	44,646
Pre-provision oper. profit (VNDbn)	30,864	32,344	37,656	40,945
NPAT of the parent bank (VNDbn)	8,368	6,997	10,249	14,795
EPS (VND)	2,081	1,740	2,273	3,050
EPS growth (%)	-3%	-16%	31%	34%
PER (x)	20.8	24.9	19.1	14.2
Book value per share	19,307	19,803	19,152	20,740
PBR (x)	2.24	2.19	2.26	2.09
ROE (%)	12.9%	9.2%	12.4%	15.9%
Dividend rate (%)	1.85%	1.85%	1.85%	1.85%



Source: Bloomberg, KB Securities Vietnam

Business performance

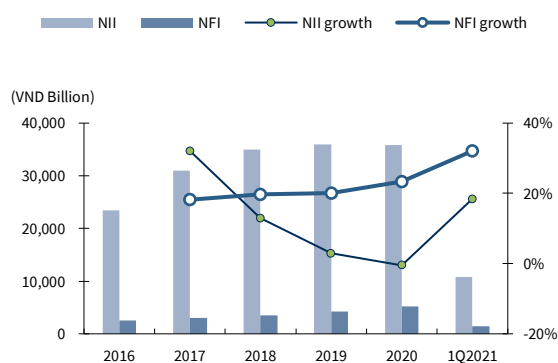
1Q earnings hit VND2,722 billion, up 88.4% YoY

BID performed well in 1Q with net interest income of VND10,830 billion (+18.4% YoY, +2.5% QoQ); non-interest income reached VND3,775 billion (+72.3% YoY, -23.2% QoQ), bringing TOI up 28.8% YoY to VND14,605 billion. Provision expense for credit remained high, reaching VND7,173 billion (+2.4% QoQ, +18.7% YoY); post-tax earnings were VND2,722 billion, up 88.4% YoY thanks to the growth in operating income and a sharp drop in provision/TOI ratio from 76.9% to 67.9%. Outstanding loans to customers maintained a good growth momentum in 1Q21 (+1.6% QoQ, +11.6% YoY).

NIM decreased by 14 bps YoY due to: (1) a sharp decline in the Government and State Bank's debt; (2) a fall in interest rates for loans to support businesses

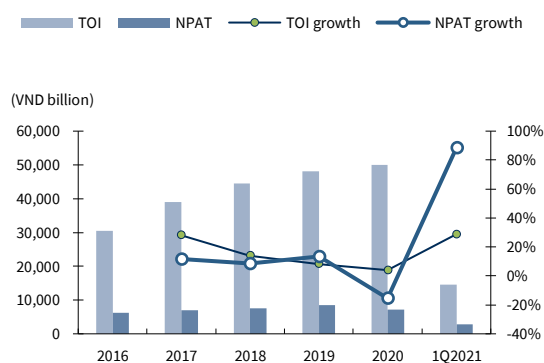
1Q NIM was 2.65% (-14 bps YoY, +5 bps QoQ) due to: (1) lower average output interest rate (-97 bps YoY) as BID actively reduced loan interest rates to support Coronavirus-exposed businesses; a sharp drop of 58.5% YoY in the Government and the State Bank's debt, causing the average input interest rate to decrease by only 66bps YoY. In the last three quarters, NIM has continuously improved, mainly because the average input interest rate fell more sharply than the average output interest rate according to the general trend of the industry.

Fig 1. BID - NII & interest from service in 2016-1Q21 (YoY)



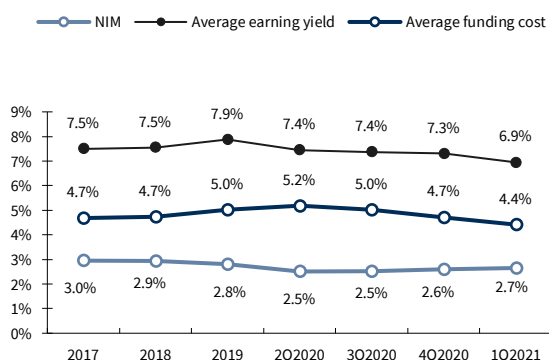
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 2. BID - Operating income & EAT in 2016-1Q21 (YoY)



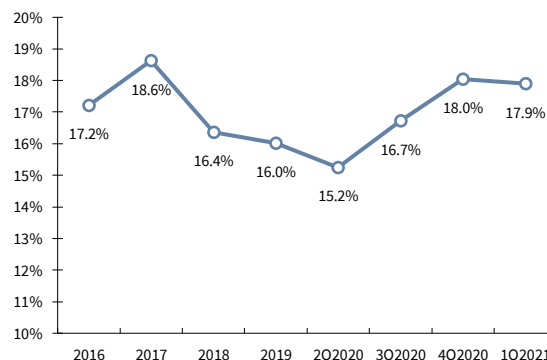
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 3. BID - Interest rate & NIM in 2017-1Q21 (%)



Source: Bank for Investment & Development, KB Securities Vietnam

Fig 4. BID - CASA in 2016-1Q21 (YoY)

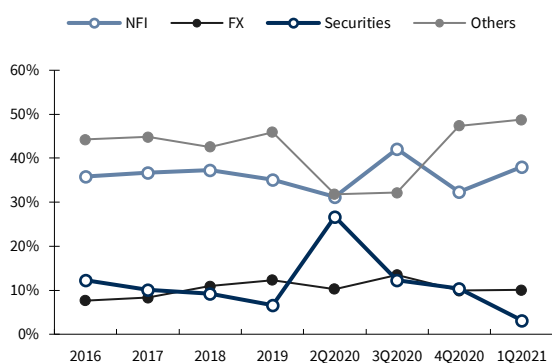


Source: Bank for Investment & Development, KB Securities Vietnam

1Q NOII hit VND3,775 billion, up 72.3% YoY

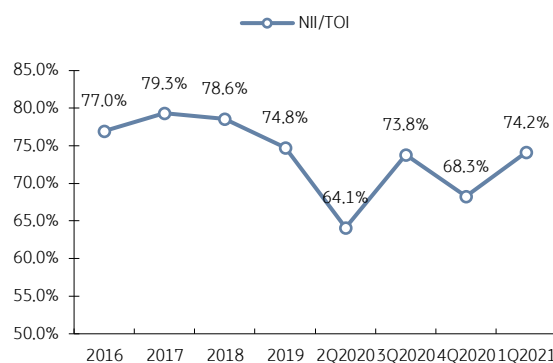
1Q21 NOI maintained an impressive growth, reaching 32.1% YoY; profit from FX activities decreased by 9.4% YoY while profit from securities trading and investment activities reached VND120 billion (+135% YoY) making NOI go up, up 72.3% YoY to VND3,775 billion. NOI/TOI was 74.2%, up 590 bps QoQ.

Fig 5. BID - Non-interest income in 2016-1Q21



Source: Bank for Investment & Development, KB Securities Vietnam

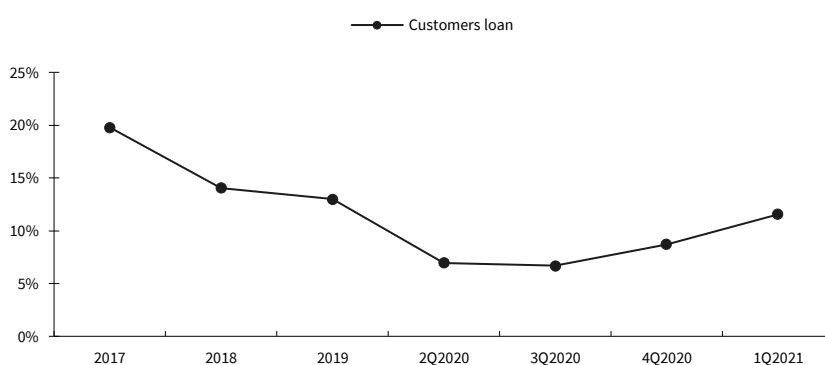
Fig 6. BID - NII/operating income ratio in 2016-1Q21



Source: Bank for Investment & Development, KB Securities Vietnam

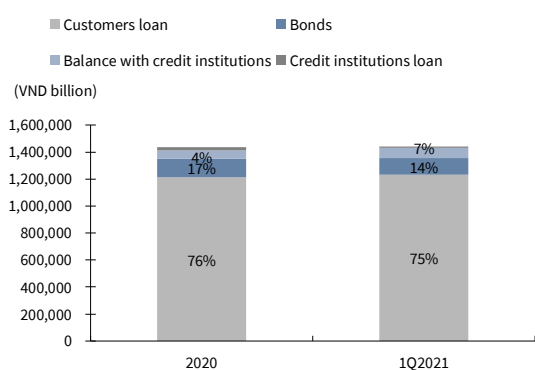
BID's credit growth after a slight decline in the first three quarters of 2020 due to the impact of the COVID-19 has shown a strong signal of recovery in 4Q20 and 1Q21

Fig 7. BID - Customer loan growth in 2017-2021 (YoY)



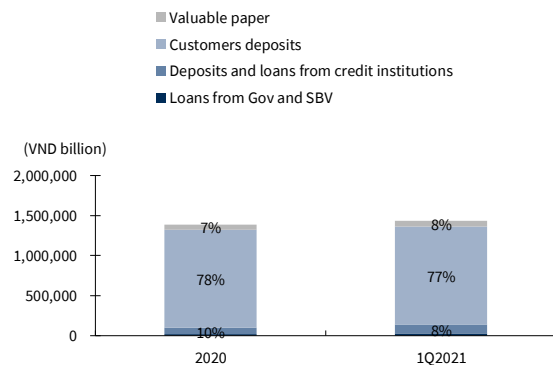
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 8. BID - Profitable assets in 1Q21



Source: Bank for Investment & Development, KB Securities Vietnam

Fig 9. BID - Mobilized capital in 1Q21



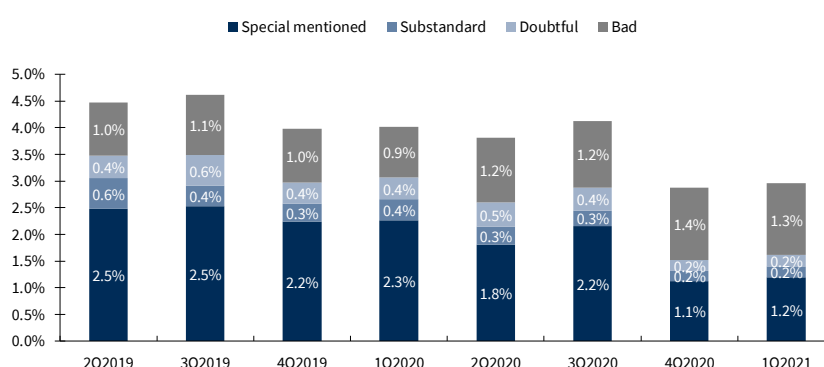
Source: Bank for Investment & Development, KB Securities Vietnam

NPL ratio reached 1.76%, down 21 bps QoQ. BID is still in the group of banks that will be under pressure of provisioning in 2021

Bad debt ratio in 1Q21 stayed flat over the quarter at 1.76%. In the first quarter of the year, BID made provision for VND7,172 billion (+0.0% QoQ, +80.2% YoY), thereby increasing the NPL coverage ratio to 107.6% (+19.2% QoQ). Restructured loans were valued at VND20,000 billion, equivalent to 1.6% of total outstanding loans, down 0.7% YTD points. With the recovery of the economy along with Circular 03/2021 on the provisioning schedule for restructuring debts, KBSV believes that the provisioning pressure on BID will be reduced compared to 2021, however it will still be high compared to the top banks that currently have good asset quality.

Group 2 debt increased by 7bps while NPL remained unchanged, causing SML to remain low in 1Q21

Fig 10. BID – Bad debt & doubtful debt in 2019–1Q21

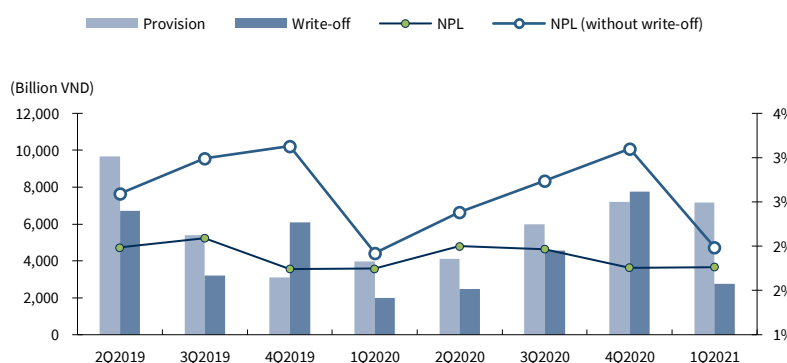


Source: Bank for Investment & Development, KB Securities Vietnam

BID made a high provision in the second half of 2020 and would maintain at this level in 2021.

Asset quality improved in 1Q21 as BID reduced its use of provision for bad debt settlement but still maintained a low NPL

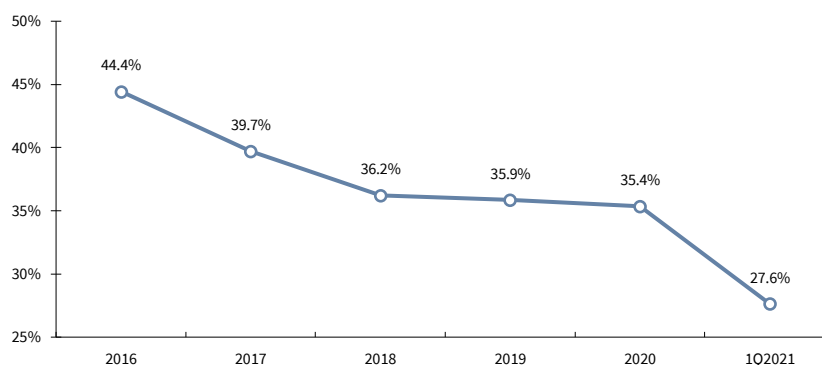
Fig 21. BID – NPL vs provision in 2Q19–1Q21



Source: Bank for Investment & Development, KB Securities Vietnam

1Q CIR was 27.6%, down 3.1% YoY, helping net profit before provision increase 34.5% YoY. CIR in the following quarters is unlikely to maintain at this level because BID usually has low operating costs in 1Q

Fig 32. BID – CIR in 2016–1Q21



Source: Bank for Investment & Development, KB Securities Vietnam

1Q21 performance are closely following the 2021 plan

BID expects 2021E earnings to reach VND13,000 billion (up 44% YoY), given: (1) NII rises 19% YoY thanks to credit growth of 10% – 12% and decrease in cost of capital from improved CASA; (2) The bank would recover off-balance sheet debt worth VND8 trillion. BID still sets a high level of provision, reaching VND24 trillion (+~3% YoY) for risks related to the pandemic and the economy along with the provision according to Circular 01/2020. 1Q21 business results are closely following the plan with EBT completing 26.1%, NII 25.4%, and provisioning 29.9% of their respective whole year targets.

The plan to increase capital to VND48.5 trillion is on schedule

The plan to raise capital through paying stock dividends should be implemented in the second half of 2021. For the new private placement of 341 million shares to strategic partners, BID is in searching for a partner, which is expected to be completed in 2021–2022. If the issuance is successful, BIDV's CAR will be improved, ensuring the credit growth for the coming years.

Forecast business performance

2021E business results

We make a forecast for BID in 2021 as follows:

- Credit growth is forecast at 11.0% in 2021 as businesses accelerated borrowing to recover from the COVID-19 pandemic.
- We estimate 2021 NIM to increase by 18 bps YoY to 2.78%, revised down by 6 bps from the previous forecast, reflecting low NIM in 1Q21.
- NPL forecast is 1.8%, unchanged from the previous forecast thanks to the decrease in debt restructuring under Circular 01/2020 & improved asset quality.
- The estimated cost of provisioning is equivalent to BID's plan (VND24,781 billion).
- The whole year earnings should reach VND10,301 billion, up 42.6% YoY, revised up 3.8%, reflecting an improvement in CIR in 1Q21.

Table 13. BID – 2021 –2022E performance

	2020	2021F	2022F	% Yoy 2021	%YoY 2022
Net interest income	35,797	41,407	44,646	16%	8%
Net fee income	5,266	5,886	6,440	12%	9%
Total operating income	50,037	56,204	61,112	12%	9%
Provision for credit losses	(23,318)	(24,781)	(22,359)	6%	-10%
Net profit after tax	7,224	10,301	14,869	42.6%	44.4%
NIM	2.60%	2.78%	2.76%	18bps	-2bps
Average interest rate	7.30%	7.63%	7.82%	33bps	19bps
Average deposit rate	4.72%	4.91%	5.01%	20bps	10bps
CIR	35.4%	33.0%	33.0%	-236bps	0bps
NPL	1.76%	1.80%	1.80%	4bps	0bps
Total asset	1,516,686	1,677,341	1,832,256	11%	9%
Owner Equity	79,647	86,288	100,612	8%	17%

Source: KB Securities Vietnam

Valuation – HOLD recommendation, target price VND46,900 apiece

We combine two pricing methods, P/B and Residual income to find a fair price for BID shares.

1) P/B valuation method (Figure 14):

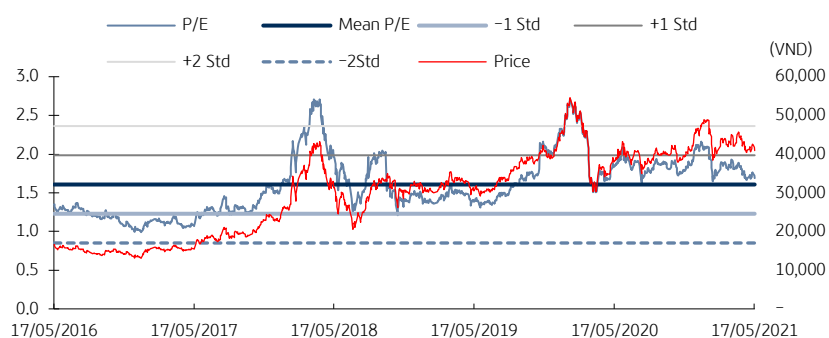
With the expectation of high profit growth in 2021, asset quality is improving after the period of accelerating bad debt settlement in 2015–2020, we give BID's target P/B in 2021 at 2.5x, equivalent to a standard deviation of +1 with the 5Y average P/B of BID (Figure 13).

2) Residual income method (Table 15):

In addition, we use the residual income method to reflect systematic risks and long-term outlook of the bank.

Combining the above two valuation methods with the ratio of 50–50, we conclude that the final fair price for BID is VND46,900/share, 12.1% higher than the price on May 20, 2021.

Fig 44. BID – Price changes and P/B in 2016–2021



Source: KB Securities Vietnam

Table 25. BID – Residual income method

Billion VND	2021F	2022F	2023F
PAT	10,300.70	14,869.11	17,489.43
Excessed return	925.41	4,309.28	5,356.36
Required rate of return (r)	11.30%		
Growth (g)	7.0%		
Terminal value	96,672		
Current value (PV)	161,278		
Price	40,099		

Source: KB Securities Vietnam

Table 36. BID – Combination of the two above methods

Methods	Forecast price	Weight	
P/B	53,635	50%	26,817
RIM	40,099	50%	20,049
Target price			46,867

Source: KB Securities Vietnam

BID – 2018A–2022E financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Net interest income	34,956	35,978	35,797	41,407	44,646	Loans	976,334	1,102,366	1,195,240	1,323,373	1,470,006
Interest income	90,074	100,747	100,688	113,638	126,592	Marketable securities	674	6,346	10,170	3,929	4,362
Interest expense	(55,118)	(64,769)	(64,891)	(72,231)	(81,945)	Cash (ex. Reserves)	10,508	14,117	12,294	15,293	16,976
Fees & commissions	3,551	4,266	5,266	5,886	6,440	Interest earning assets	1,235,019	1,322,896	1,435,661	1,543,936	1,695,480
Other non-interest income	3,815	5,361	5,093	5,883	6,765	Fixed assets & other assets	38,001	39,206	38,919	42,347	45,690
Total operating income	44,483	48,121	50,037	56,204	61,112	Total assets	1,313,038	1,489,957	1,516,686	1,677,341	1,832,256
SG&A expenses	(16,117)	(17,257)	(17,693)	(18,547)	(20,167)	Customer deposits	989,671	1,114,163	1,226,674	1,347,868	1,496,134
Pre-provisioning OP	28,366	30,864	32,344	37,656	40,945	Borrowings & call money/repos	52,288	75,159	76,090	92,084	101,685
Provision for credit losses	(18,894)	(20,132)	(23,318)	(24,781)	(22,359)	Interest bearing liabilities	1,214,158	1,362,378	1,389,394	1,550,487	1,720,489
Other income	5,337	6,518	7,993	9,192	10,570	Other liabilities	32,032	37,540	34,792	26,000	(4,994)
Other expense	(1,522)	(1,157)	(2,900)	(3,309)	(3,805)	Total liabilities	1,258,486	1,412,304	1,437,039	1,591,054	1,731,644
Pre-tax income	9,473	10,732	9,026	12,876	13,586	Charter capital	34,187	40,220	40,220	45,100	48,510
Income tax expense	(1,931)	(2,184)	(1,803)	(2,575)	(3,717)	Capital surplus	30	14,292	14,292	14,292	14,292
NP	7,542	8,548	7,224	10,301	14,869	Retained earnings	12,341	13,857	13,517	15,279	26,193
Minority interest profit	(184)	(179)	(227)	(52)	(74)	Capital adjustments	-	-	-	-	-
Parent NP	7,358	8,368	6,997	10,249	14,795	Total shareholders' equity	54,551	77,653	79,647	86,288	100,612

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	14.6%	12.9%	9.2%	12.4%	15.9%	EPS	2,152	2,081	1,740	2,273	3,050
ROA	0.6%	0.6%	0.5%	0.6%	0.8%	BVPS	15,957	19,307	19,803	19,132	20,740
Pre-provision ROE	43.8%	37.3%	32.9%	36.3%	35.1%	Tangible BVPS	14,695	18,235	18,744	18,193	19,876
Pre-provision ROA	1.8%	1.8%	1.7%	1.9%	1.9%	Valuations					
Net interest margin (NIM)	2.9%	2.8%	2.6%	2.8%	2.8%	PER	20.1	20.8	24.9	19.1	14.2
Efficiency						PBR	2.7	2.2	2.2	2.3	2.1
Pure Loan to deposit ratio	99.9%	100.3%	99.0%	100.0%	100.0%	Dividend yield	0.0%	1.8%	1.8%	1.8%	1.8%
Cost-income ratio	36.2%	35.9%	35.4%	33.0%	33.0%	ROE	14.6%	12.9%	9.2%	12.4%	15.9%
Growth						Capital Adequacy					
Asset growth	9.2%	13.5%	1.8%	10.6%	9.2%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	14.1%	12.9%	8.4%	10.7%	11.1%	Asset Quality					
PPOP growth	20.6%	8.8%	4.8%	16.4%	8.7%	NPL ratio (substandard)	1.9%	1.7%	1.8%	1.8%	1.8%
Parent NP growth	8.4%	13.7%	-16.4%	46.5%	44.4%	Coverage ratio (substandard)	66.2%	75.0%	89.2%	101.0%	97.0%
EPS growth	8.4%	-3.3%	-16.4%	30.6%	34.2%	NPL ratio (precautionary)	4.2%	4.0%	2.9%	2.9%	2.9%
BVPS growth	11.7%	21.0%	2.6%	-3.4%	8.4%	Coverage ratio (precautionary)	29.8%	32.9%	54.4%	62.7%	60.2%

Source: KBSOURCE

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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

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