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2Q EBT rose 12.8% YoY, leading the industry

Vietcombank's (VCB) 2Q TOI reached VND17,470 billion (+9.4% YoY), mainly supported by NII (+9.6% YoY). Provision costs decreased by 7% YoY, and operating costs slightly declined 2.7% YoY. Accordingly, VCB's EBT reached VND7,428 billion (+25% YoY), completing 48% of the 2023 plan and ranking first in the industry.

VCB has the industry-leading asset quality and solid provision buffers

NPL ratio went against the industry trend when it fell to 0.83%, and the loan loss coverage ratio (LLCR) is currently at the highest level in the industry (386%) as the bank maintained high provision levels in 2Q. This will give VCB more flexibility in lowering provisions and boosting profits in 2H23.

NIM is expected to remain stable in the coming quarters

NIM should be stable in the coming quarters as deposit growth is good and cost of funds (COF) is forecast to begin to decrease in 3Q mainly thanks to the maturing of 4Q22 deposits and lowering interbank and customer deposit rates in 2Q23.

Credit growth should recover by the end of 2023 and 2024

KBSV lowers our forecast for VCB's credit growth to 10.3%, reflecting weak credit demand. However, this is still a high growth rate compared to 1H23 because we expect the bank to boost disbursement in the near future thanks to the Circular 06/23 and expectations of economic recovery.

BUY recommendation with target price VND101,400/share

Using two valuation methods P/B and residual income, we find the target price for 2023 of VCB stock at VND101,400/share, 16.6% higher than the price on September 21. We recommend BUY for VCB shares.

Buy change

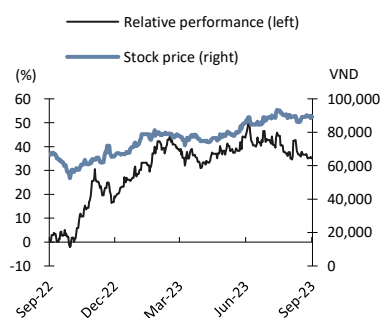
Target price	VND101,400
Upside	16.6%
Current price (Sep 21, 2023)	87,000
Consensus target price	99,900
Market cap (VNDbn/USDbn)	486,251/20.04

Trading data	
Free float	25.2%
3M avg trading value	107.64
Foreign ownership	23.5%
Major shareholder	The State Bank (63.3%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1.4	2.7	15.0	34.4
Relative	-1.9	-6.9	-2.2	34.6

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	42,400	53,246	60,912	68,381
Pre-provision operating income (VNDbn)	39,149	46,832	54,036	60,413
NPAT of parent bank (VNDbn)	21,939	29,919	36,760	42,531
EPS (VND)	5,910	6,318	6,573	7,605
EPS growth (%)	19%	7%	4%	16%
PER (x)	17.9	15.1	14.1	13.6
Book value per share (VND)	29,421	28,663	30,201	37,207
PBR (x)	3.0	3.1	3.8	3.5
ROE (%)	21.6%	24.4%	24.1%	22.6%
Dividend yield (%)	1.36%	-	1.46%	1.46%



Source: Bloomberg, KB Securities Vietnam

2Q23 performance updates

2Q EBT advanced 25% YoY to VND9,278 billion

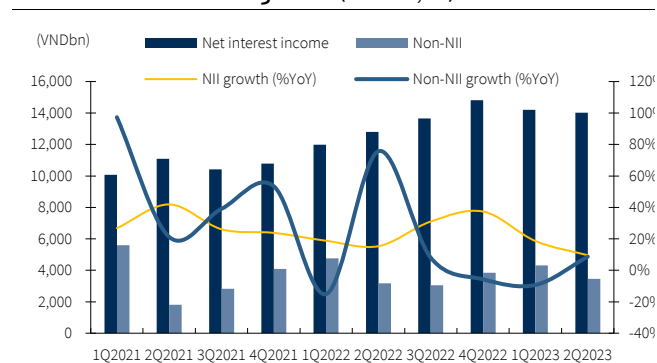
2Q TOI reached VND17,470 billion (+9.4% YoY), mainly supported by NII (+9.6% YoY). Provision costs decreased by 7% YoY, and operating costs slightly declined 2.7% YoY. Accordingly, VCB's EBT reached VND7,428 billion (+25% YoY), completing 48% of the 2023 plan and ranking first in the industry. Unlike other banks, VCB's NPL ratio it fell to 0.83%, among the lowest in the industry.

Table 1. VCB – 2Q23 updated results

	2Q22	1Q23	2Q23	+/-% QoQ	+/-% YoY	KBSV's notes
Net interest income (VNDbn)	12,797	14,203	14,021	-1.3%	9.6%	Net interest income grew by 9.6% YoY mainly thanks to high credit base in 3Q and 4Q22 but decreased slightly by 1.3% QoQ due to poor credit growth and decreased CASA in 2Q23.
Non-interest income (VNDbn)	3,175	4,314	3,450	-20.0%	8.6%	2Q23 NOII gained 8.6% YoY, mainly supported by income from service activities and business activities with growth rates of 133.5% YoY and 216.7% YoY, respectively.
Total operating income (VNDbn)	15,972	18,517	17,470	-5.7%	9.4%	On the contrary, the FX segment was flat YoY or dropped 13.2% QoQ. Other incomes plunged 70.7% YoY due to a decline in income from handled loans given no longer attractive asset prices.
Operating expenses (VNDbn)	(5,816)	(5,274)	(5,656)	7.2%	-2.7%	
CIR (%)	36.4%	28.5%	32.4%	+3.9ppts	-4ppts	
Provision costs (VNDbn)	(2,733)	(2,022)	(2,536)	25.5%	-7.2%	In 2Q, the bank continued to maintain high provision levels for customer loans and at the same time reversed VND4.2 trillion for interbank loans. Therefore, provision costs remained flat QoQ and decreased by 7.2% YoY.
Profit before taxes (VNDbn)	7,423	11,221	9,278	-17.3%	25.0%	
Profit after taxes (VNDbn)	5,942	8,992	7,428	-17.4%	25.0%	
Credit growth (%)	14.4%	2.5%	2.8%	+0.3ppts	-11.6ppts	Credit growth only reached 2.8% YTD, lower than other state-owned banks (vs BID +6.7% YTD and CTG +6.6% YTD). Customer loan balance accounts for 99% of total credit and grew 2.9% YTD, driven by corporate customer loans (+5.1% YTD), while retail loans have not changed much.
Deposit growth (%)	9.4%	4.2%	0.2%	-4ppts	-9.3ppts	Customer deposits steadily grew 6.7% YTD, while deposits from the State Treasury and interbank loans decreased, causing deposit growth to only reach 0.2% YTD.
NIM (%)	3.34%	3.17%	3.28%	+12bps	-6bps	NIM rose 12bps, going against the general trend of the banking industry thanks to VCB's cutting the proportion allocated to low-yielding assets (such as State Treasury deposits and interbank loans). CASA rate reached 30%, reducing 0.43ppts QoQ.
NPL ratio (%)	0.61%	0.85%	0.83%	-2bps	+22bps	NPL ratio and LLCR move against the trend of the whole industry. NPL decreased slightly by 2bps to 0.83% while LLCR increased to 386%. VCB continued to be the bank with the highest LLCR in the system.

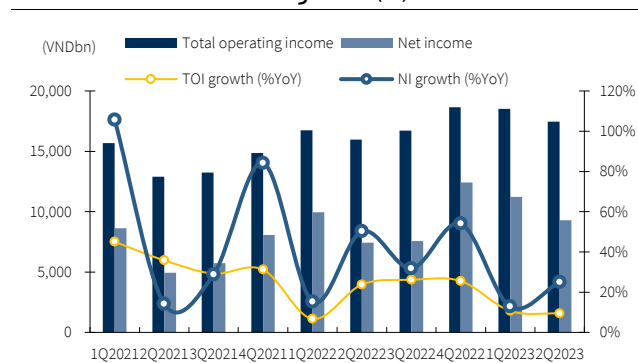
Source: Vietcombank, KB Securities Vietnam

Table 2. VCB – NII & NII growth (VNDbn, %)



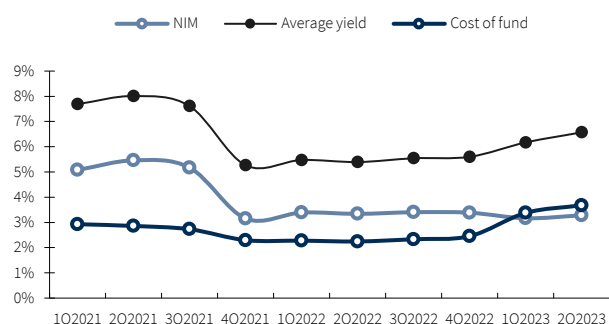
Source: Vietcombank, KB Securities Vietnam

Table 3. VCB – TOI & NPAT growth (%)



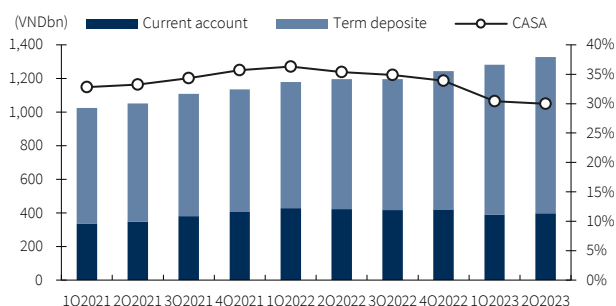
Source: Vietcombank, KB Securities Vietnam

Table 4. VCB – NIM by quarter (%)



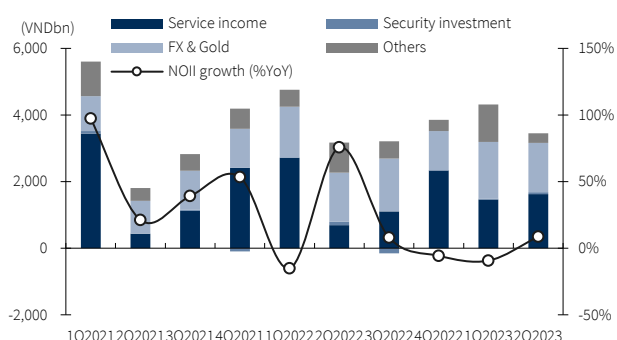
Source: Vietcombank, KB Securities Vietnam

Table 5. VCB – CASA ratio by quarter (%)



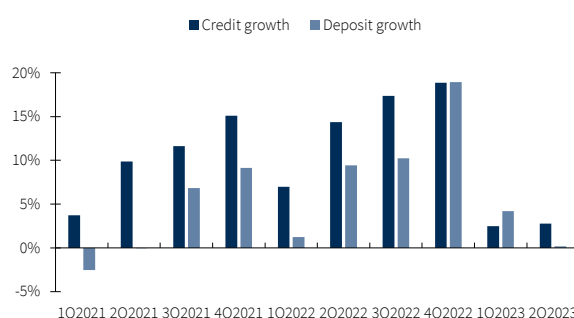
Source: Vietcombank, KB Securities Vietnam

Table 6. VCB – NFI structure



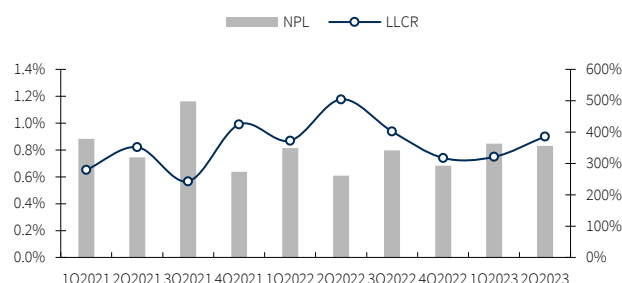
Source: Vietcombank, KB Securities Vietnam

Table 7. VCB – Credit & deposit growth by quarter (%)



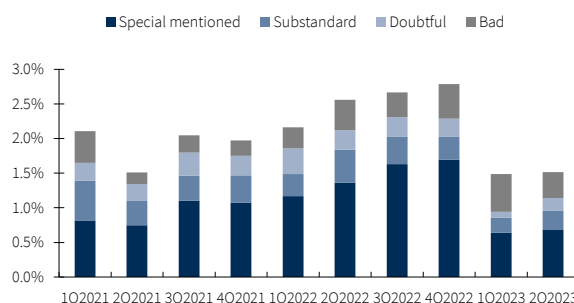
Source: Vietcombank, KB Securities Vietnam

Table 8. VCB – NPL & LLCR (%)



Source: Vietcombank, KB Securities Vietnam

Table 9. VCB – NPL structure



Source: Vietcombank, KB Securities Vietnam

VCB has the industry-leading asset quality and solid provision buffers

VCB chose to prioritize quality over growth, so in 2Q23, the bank is still quite cautious in disbursement. Although provision expenses decreased by 7.2% YoY, VCB continued to be steadfast with prudent measures in terms of asset quality. The NPL ratio went against the industry trend and fell 2bps to 0.83%. Special mention remained almost unchanged compared to the previous quarter. In addition, the LLCR is currently at the highest level in the industry as the bank maintains high provision levels in 2Q, which will allow VCB to be flexible in reducing provisions and boosting profits in 2H23. This is said to be a solid buffer for banks to promote growth in the context of the economy's gradual recovery.

NIM is expected to remain stable in the coming quarters

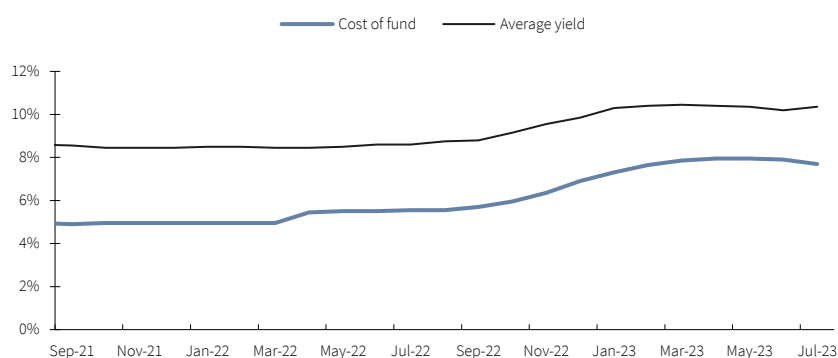
VCB's NIM modestly declined YoY as VCB lowered interest rates three times this year (down by 0.5–1%) to support customers (1st time from January 1 to April 30, 2nd time from May 1 to July 31, and 3rd time from August 1 to December 31). It is estimated that NIM may be eroded by VND600–800 billion for each time. In addition, VCB is also one of four main commercial banks participating in the social housing loan package of VND120,000 billion. However, we expect NIM to remain stable in the coming quarters as deposit growth is at a decent level (customer deposits increased by 6.7% YTD) and COF is forecast to start to decline in 3Q. Supportive factors include: (1) four times of SBV's policy rate cuts; (2) the Circular 26/22 that helps reduce pressure on LDR; and (3) the maturity of 6-month deposits from 4Q22 and lower customer and interbank deposit rates in 2Q23.

According to data published by the State Bank, lending interest rates tend to level off in recent months, resulting from interest rate adjustments to support customers of state-owned banks (accounting for about 44% of the credit market share). Meanwhile, the group of private commercial banks has also recorded a reduction in interest rates, but it is not really significant. In fact, VCB has implemented three loan interest rate reductions this year.

Credit growth is expected to recover by the end of 2023 and 2024

With the priority of sustainable growth that the bank has announced since the beginning of the year and not-yet-recovered credit demand, VCB's credit growth in 1H23 grew by a mere of 2.8% YTD, much lower than the same period last year and the general growth rate of the entire economy (4.73%). Accordingly, KBSV continues to adjust VCB's 2023 credit growth forecast to 10.3% YTD. However, this is still a high growth rate compared to the first half of the year as we expect the bank to boost disbursement in the near future. Supporting factors for credit growth to meet expectations include: (1) Capital costs are forecast to decrease, creating conditions to reduce lending interest rates and increase competitiveness. (2) Circular 06/23, effective from September 1, 2023, stipulates that banks are allowed to lend to customers to repay debt early at other banks, and this loan is not necessarily a loan for business activities as in Circular 39/16. This change will help boost VCB's lending activities because the bank has an advantage in interest rates. (3) The economy is showing signs of recovery, which bodes well for credit in 2H23.

Fig 10. Vietnam – Average deposit rates and 12-month loan interest rates (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Forecast & valuation

Table 11. VCB – 2023–2024F results

	2022	2023F	+/-%YoY 2023	2024F	+/-%YoY 2024	KBSV's notes
Net interest income (VNDbn)	53,246	60,912	14.4%	68,381	12.3%	Forecast NII increases compared to the previous report because we raised the NIM assumption to 12bps.
Net fee income (VNDbn)	6,839	8,201	19.9%	8,775	7.0%	
Total operating income (VNDbn)	68,083	78,884	15.9%	88,843	12.6%	
Provision costs (VNDbn)	(9,464)	(8,086)	-14.6%	(7,249)	-10.4%	Industry-leading asset quality and solid provision buffers are the basis for VCB to reduce provisioning in the second half of the year. We continue to adjust provision costs in 2023 to ~VND8 trillion.
Profit after taxes (VNDbn)	29,919	36,760	22.9%	42,531	15.7%	Therefore, the forecast for adjusted NPAT increases, the main motivation comes from solid NII and FX income, while risk provision expenses decrease.
NIM (%)	3.38%	3.35%	-4bps	3.40%	+5bps	NIM remains stable thanks to better COF from 3Q.
Average earnings yields (%)	5.60%	5.83%	+23bps	5.95%	+12bps	
Average COF (%)	2.45%	2.78%	+32bps	2.84%	+6bps	
CIR (%)	31.2%	31.5%	+29bps	32.0%	+50bps	
NPL (%)	0.68%	0.80%	+12bps	0.75%	-5bps	
Total assets (VNDbn)	1,813,815	1,911,493	5.4%	2,195,593	14.9%	
Owner equity (VNDbn)	135,646	168,798	24.4%	207,951	23.2%	

Source: KB Securities Vietnam

Valuation: BUY recommendation – target price VND101,400

We combine two valuation methods, P/B and residual income, to find a reasonable price for VCB shares.

(1) P/B valuation method:

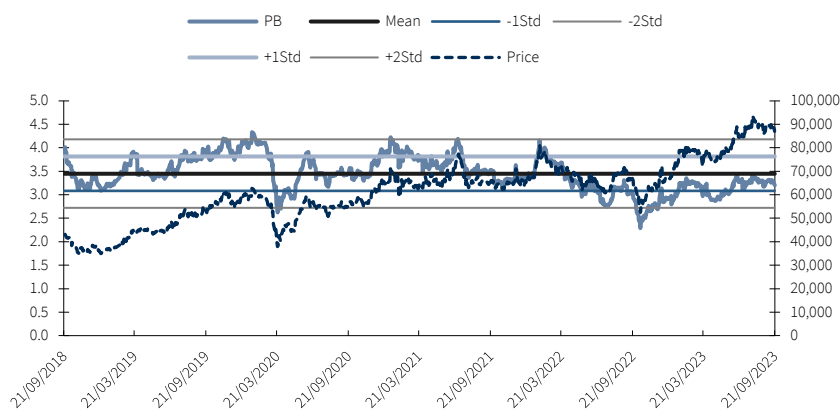
Currently, VCB stock price is trading at P/B 3.2x. With industry-leading asset quality and expectations of credit growth recovery, we expect VCB's 2023 target P/B to be 3.8x, equivalent to the average P/B from 2015 to present +1 Std.

(2) Residual income method:

In addition, we use the residual income method to reflect systemic risk and long-term expectations.

Combining the above two valuation methods with a 50–50 ratio, we adjust the target price for VCB shares to VND101,400/share, 16.6% higher than the closing price on September 21, 2023.

Fig 22. VCB – P/B & stock price (x, VND)



Source: Bloomberg, KB Securities Vietnam

Table 13. VCB – Valuation according to residual income model

(VNDbn)	2023F	2024F	2025F	2026F	2027F
NPAT	36,760	42,531	46,696	51,464	61,486
Excessed return	21,280	18,801	18,023	17,303	20,696
Required rate of return (Re)	11.41%				
Growth (g)	5%				
Terminal value	202,361				
Total present value (PV)	491,681				
VCB's share price	VND87,971				

Source: KB Securities Vietnam

Table 24. VCB – Final valuation

Valuation method	Forecast price	Weight	Price per weight
Residual income	87,971	50%	43,986
P/B	114,765	50%	57,382
Target price			VND101,400

Source: KB Securities Vietnam

VCB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	36,285	42,400	53,246	60,912	68,381	Loans	820,545	934,774	1,120,287	1,236,754	1,398,282
Interest income	69,205	70,749	88,113	106,031	119,558	Marketable securities	1,954	2,766	1,500	1,734	1,982
Interest expense	(32,920)	(28,349)	(34,866)	(45,119)	(51,177)	Cash (ex. Reserves)	15,095	18,012	18,349	21,525	24,596
Fees & commissions	6,607	7,407	6,839	8,201	8,775	Interest earning assets	1,301,421	1,386,624	1,759,898	1,878,443	2,143,555
Other non-interest income	1,800	2,393	2,054	2,023	1,647	Fixed assets & other assets	30,595	39,941	71,157	51,309	71,433
Total operating income	49,063	56,724	68,083	78,884	88,843	Total assets	1,326,230	1,414,673	1,813,815	1,911,493	2,195,593
SG&A expenses	(16,038)	(17,574)	(21,251)	(24,848)	(28,430)	Customer deposits	1,032,114	1,135,324	1,243,468	1,405,887	1,606,502
Pre-provisioning OP	33,024	39,149	46,832	54,036	60,413	Borrowings & call money/repos	21,307	17,395	25,341	33,132	36,963
Provision for credit losses	(9,975)	(11,761)	(9,464)	(8,086)	(7,249)	Interest bearing liabilities	1,198,181	1,271,945	1,568,635	1,682,684	1,920,904
Other income	2,545	3,100	2,928	2,784	2,246	Other liabilities	33,954	33,610	109,534	60,012	66,738
Other expense	(744)	(707)	(874)	(760)	(599)	Total liabilities	1,232,135	1,305,555	1,678,169	1,742,695	1,987,642
Pre-tax income	23,050	27,389	37,368	45,950	53,164	Charter capital	37,089	37,089	47,325	55,891	55,891
Income tax expense	(4,577)	(5,450)	(7,449)	(9,190)	(10,633)	Capital surplus	4,995	4,995	4,995	4,995	4,995
NP	18,473	21,939	29,919	36,760	42,531	Retained earnings	36,650	48,434	60,733	85,552	124,705
Minority interest profit	(21)	(20)	(20)	(22)	(24)	Capital adjustments	-	-	-	-	-
Parent NP	18,451	21,919	29,899	36,738	42,507	Total shareholders' equity	94,095	109,117	135,646	168,798	207,951

Financial Indicators						Valuation					
(%)	2020	2021	2022	2023F	2024F	(VND, X, %)	2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	21.1%	21.6%	24.4%	24.1%	22.6%	EPS	4,975	5,910	6,318	6,573	7,605
ROA	1.4%	1.6%	1.9%	2.0%	2.1%	BVPS	25,370	29,421	28,663	30,201	37,207
Pre-provision ROE	30.2%	30.9%	30.6%	28.4%	25.7%	Tangible BVPS	24,527	28,592	28,068	29,697	36,702
Pre-provision ROA	2.1%	2.3%	2.3%	2.3%	2.4%	Valuations					
Net interest margin (NIM)	2.9%	3.2%	3.4%	3.3%	3.4%	PER	17.9	15.1	14.1	13.6	11.7
Efficiency						PBR	3.5	3.0	3.1	3.8	3.5
Pure Loan to deposit ratio	81.4%	84.6%	92.1%	90.0%	89.0%	Dividend yield	1.4%	1.4%	-	1.5%	1.5%
Cost-income ratio	32.7%	31.0%	31.2%	31.5%	32.0%	ROE	21.1%	21.6%	24.4%	24.1%	22.6%
Growth						Capital Adequacy					
Asset growth	8.5%	6.7%	28.2%	5.4%	14.9%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	13.3%	13.9%	19.8%	10.4%	13.1%	Asset Quality					
PPOP growth	10.4%	18.5%	19.6%	15.4%	11.8%	NPL ratio (substandard)	0.6%	0.6%	0.7%	0.8%	0.8%
Parent NP growth	-0.3%	18.8%	36.4%	22.9%	15.7%	Coverage ratio (substandard)	368.0%	420.5%	309.3%	282.0%	293.8%
EPS growth	-0.3%	18.8%	6.9%	4.0%	15.7%	NPL ratio (precautionary)	1.0%	1.0%	1.0%	1.3%	1.3%
BVPS growth	16.3%	16.0%	-2.6%	5.4%	23.2%	Coverage ratio (precautionary)	239.8%	267.6%	203.2%	173.5%	169.5%

Source: 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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