

Vietcombank (VCB)

Best asset quality among Vietnam banks

September 12, 2024

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2Q24 PBT rose 17.4% YoY to VND6,750 billion

In 2Q24, Vietcombank (VCB) posted VND13,908 billion in NII (-1.2% QoQ, -0.8% YoY) and VND16,752 billion in TOI (-3.1% QoQ, -4.1% YoY). Provisions were low at VND1,514 billion (+0.4% QoQ, -40.3% YoY), resulting in PBT of VND10,116 billion (-5.6% QoQ, +9.0% YoY). 1H24 PBT rose 1.6% YoY to VND20,835 billion.

2024F credit growth is 14%

Credit growth in 1H24 was 7.7% YTD. KBSV maintains the forecast for VCB's 2024 credit growth at 14%, based on: (1) System-wide credit boosting disbursement in the second half of the year; (2) partial recovery of the real estate market; and (3) improvement of the manufacturing sector.

NIM is expected to continue to recover in the rest of 2024

KBSV expects VCB's NIM to recover in the rest of 2024, driven by both deposit and credit channels. CoF would improve with (1) CASA improvement and (2) low deposit interest rates (below 5.5%/year). The trend of lowering average yield on earning assets (IEA) will gradually slow down due to higher credit demand in the second half of the year.

Asset quality is well controlled

Asset quality continues to be well controlled with 2Q NPL reaching 1.2%, the lowest in the system. With the current asset quality and strong reserve buffer, VCB can be flexible in provisioning in 2H24 to achieve the set targets.

Valuation: BUY rating – Target price VND103,300/share

Based on the valuation results, business prospects, and potential risks, we recommend BUY for VCB shares. The target price for 2024 is VND103,300/share, 16.9% higher than the price on September 11, 2024.

Buy maintain

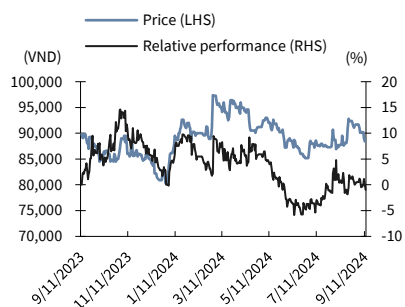
Target price	VND103,300
Upside	16.9%
Current price (Sep 11, 2024)	VND88,400
Consensus target price	VND106,300
Market cap (VNDtn/USDbn)	500.2/20.3

Trading data	
Free float	25.2%
3M avg trading value (VNDbn/USDmn)	143.3/5.7
Foreign ownership	23.3%
Major shareholder	State Bank of Vietnam (63.3%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0.7	-0.3	-6.4	-1.7
Relative	-1.2	3.3	-7.0	-2.3

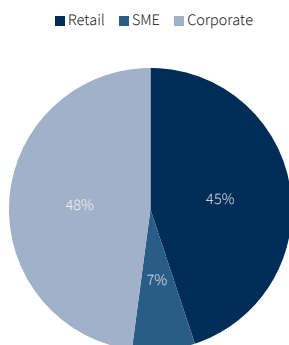
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net interest income (VNDbn)	53,246	53,621	59,848	69,083
PPOP (VNDbn)	46,832	45,809	50,821	57,963
NPAT-MI (VNDbn)	29,899	33,033	34,733	36,246
EPS (VND)	6,318	5,910	6,214	6,485
EPS growth (%)	(19.9)	(19.9)	(20.0)	(20.0)
PER (x)	14.2	15.1	14.4	13.8
BVPS	28,663	29,524	35,738	42,223
PBR (x)	3.12	3.03	2.50	2.12
ROE (%)	24.4	22.0	19.1	16.6
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Vietcombank, KB Securities Vietnam

Business operation

Vietnam Joint Stock Commercial Bank for Foreign Trade (VCB) is a state-owned joint stock commercial bank with assets of VND1,839 trillion by the end of 2023, ranking fourth in the industry. VCB's loan portfolio is quite safe and focuses on two main customer groups, large corporate customers (48.2%) and individual customers (44.6%).

Investment Catalysts

NIM is expected to improve well in the rest of 2024 and 2025. The driving force comes from low base interest rates and recovering credit demand.

Asset quality is well controlled, leading the system.

Credit growth is expected to reach 14%. The driving force comes from increased credit demand in the second half of the year.

Notes

Please find more details [here](#)

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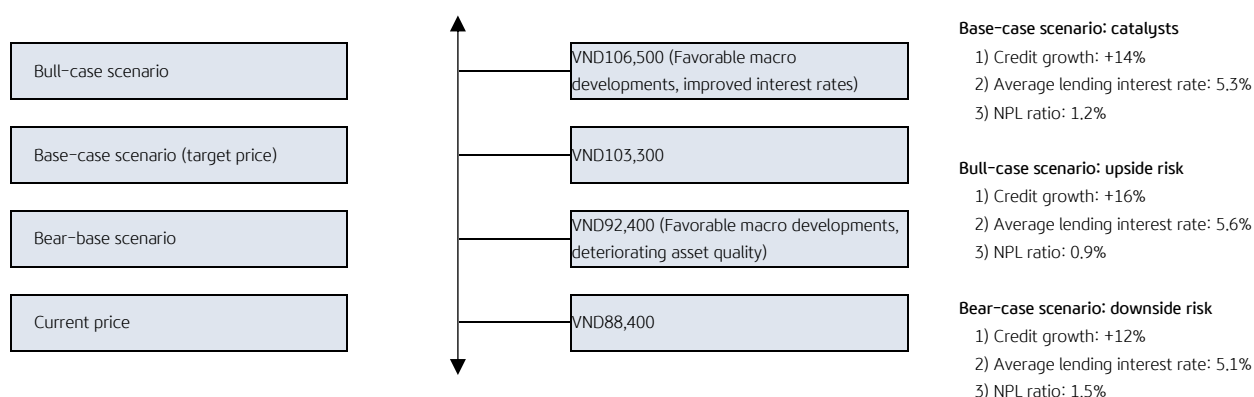
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	59,848	69,083	-2%	-4%	58,630	67,513	2%	2%
EBIT	50,821	57,963	-2%	-4%	50,557	58,487	1%	-1%
NP after MI	34,733	36,246	-3%	-15%	34,977	42,032	-1%	-13.8%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

2Q24 PBT rose 17.4% YoY to VND6,750 billion

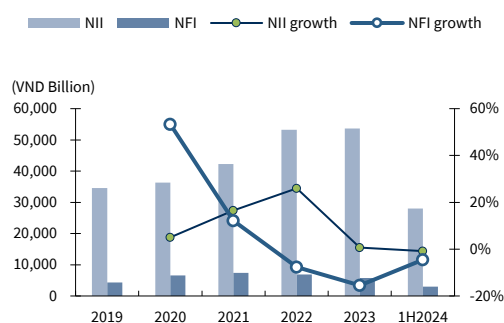
In 2Q24, VCB posted VND13,908 billion in NII (-1.2% QoQ, -0.8% YoY) and VND2,844 billion in NOI, (-11.2% QoQ, -17.6% YoY), making TOI reach VND16,752 billion (-3.1% QoQ, -4.1% YoY). Provisions were low at VND1,514 billion (+0.4% QoQ, -40.3% YoY), resulting in PBT of VND10,116 billion (-5.6% QoQ, +9.0% YoY). 1H24 PBT rose 1.6% YoY to VND20,835 billion.

Table 1. VCB – 2Q24 business results

(VNDbn, %)	2Q23	1Q24	2Q24	+/-%QoQ	+/-%YoY	Notes
Net interest income (NII)	14,021	14,078	13,908	-1.2%	-0.8%	Net interest income did not change significantly compared to the same period as NIM was almost flat with modest credit growth in 1Q.
Net fee income (NFI)	1,622	1,442	1,499	4.0%	-7.6%	The trade finance segment, accounting for 37% of NFI and domestic payment segment were the main growth drivers, increasing by 19.0% YoY and 312% YoY respectively while the bancassurance lost 38% YoY.
Other non-interest income (NOII)	1,827	1,761	1,345	-23.6%	-26.4%	The FX segment declined to VND1,161 billion (-3.1% QoQ, -21.6% YoY) while the contribution from securities trading & investment was insignificant, merely reaching VND24 billion. Net income from other activities decreased sharply to VND24 billion (-95.2% QoQ, -90.6% YoY) due to a surge in other expenses.
Total operating income (TOI)	17,470	17,280	16,752	-3.1%	-4.1%	
Operating expenses	(5,656)	(5,054)	(5,122)	1.3%	-9.4%	
Pre-provision operating profit (PPOP)	11,814	12,226	11,630	-4.9%	-1.6%	
Provisions	(2,536)	(1,508)	(1,514)	0.4%	-40.3%	VCB maintains a moderate provisioning level while the provision buffer remains safe at 212%, the highest in the system.
Profit before taxes (PBT)	9,278	10,718	10,116	-5.6%	9.0%	
Net profit after minority interest (NPAT-MI)	7,423	8,580	8,119	-5.4%	9.4%	
Credit growth	2.7%	-0.3%	7.7%	8 ppts	4.9 ppts	Credit recovered well in 2Q24 after a quiet 1Q, driven by retail customers (+7.1% YTD) and large corporate customers (+9.8% YTD).
Deposit growth	-4.0%	-4.8%	3.4%	8.2 ppts	7.4 ppts	
NIM	3.48%	2.98%	2.99%	0 bps	-48 bps	
Average earnings yield (IEA)	6.42%	5.82%	5.51%	-30 bps	-90 bps	
Average costs of fund (CoF)	3.25%	3.21%	2.83%	-38 bps	-42 bps	
CIR	32.4%	29.2%	30.6%	1.3 ppts	-1.8 ppts	
NPL	0.83%	1.22%	1.20%	-1 bps	37 bps	VCB is currently the bank with the lowest NPL ratio in the banking system. During the period, doubtful and bad debt lowered 3bps QoQ and 1bps QoQ, respectively, while substandard debt inched up 2bps QoQ. Notably, special mention dropped 20bps QoQ, showing that asset quality is still well controlled.

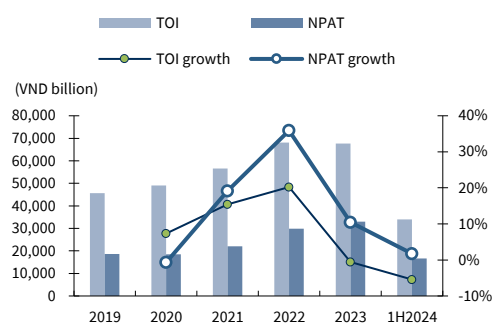
Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – NII, NFI growth (VNDbn, %YoY)



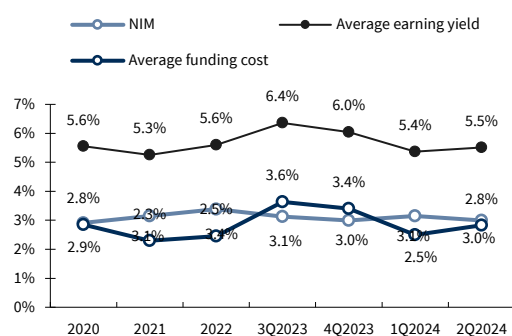
Source: Vietcombank, KB Securities Vietnam

Fig 3. VCB – TOI & NPAT growth (VNDbn, %YoY)



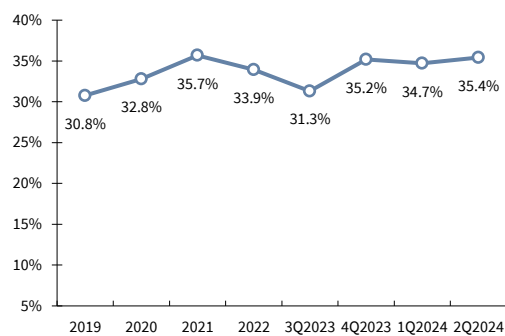
Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – NIM, average IEA & CoF (%)



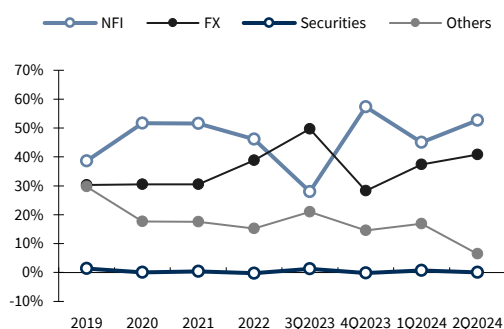
Source: Vietcombank, KB Securities Vietnam

Fig 5. VCB – CASA ratio (%)



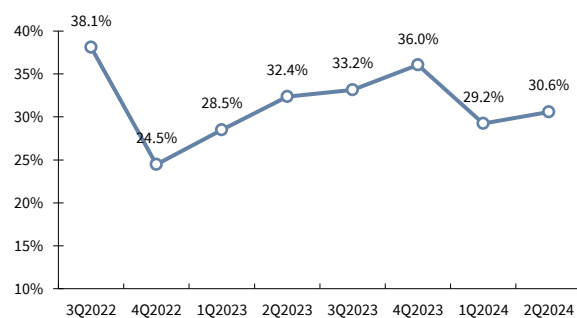
Source: Vietcombank, KB Securities Vietnam

Fig 6. VCB – NOII breakdown (%)



Source: Vietcombank, KB Securities Vietnam

Fig 7. VCB – CIR (%)



Source: Vietcombank, KB Securities Vietnam

2024F credit growth is 14%

Credit growth in 1H24 reached 7.7% YTD, led by retail customers and large enterprises with 7.1% and 9.8% growth, respectively. KBSV maintains the forecast for VCB's 2024 credit growth at 14%, based on: (1) System-wide credit boosting disbursement in the second half of the year; (2) partial recovery of the real estate market

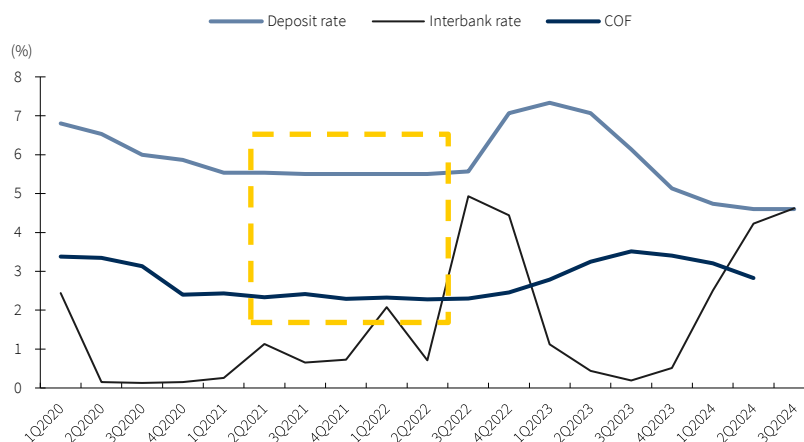
(In the last three quarters, the apartment supply has improved with the total number of licensed apartments reaching VND31,543 billion, 62% higher than the previous four gloomy quarters); and (3) improvement of the manufacturing sector.

NIM is expected to continue to recover in the rest of 2024

KBSV expects VCB's NIM to recover in the rest of 2024, driven by both deposit and credit channels. We believe that VCB's CoF will continue to improve, based on the following factors: (1) CASA improves, reaching 35.4%, nearly equal to the peak CASA in 2021 of 35.7%; (2) deposit interest rates are maintained at a low level in the context of slightly reduced exchange rate pressure. Up to now, VCB's 12M personal deposit interest rate* is at 4.7%, lower than the deposit interest rate in 2022 (~5.5%), the year when it had the best CoF (Figure 8). On the contrary, the trend of lowering average IEA will gradually slow down due to higher credit demand in the second half of the year. However, KBSV does not expect the average IEA to have an impressive recovery as the short-term lending ratio is still high while the demand for long-term loans from the production, business and real estate sectors has improved but not likely to post strong growth.

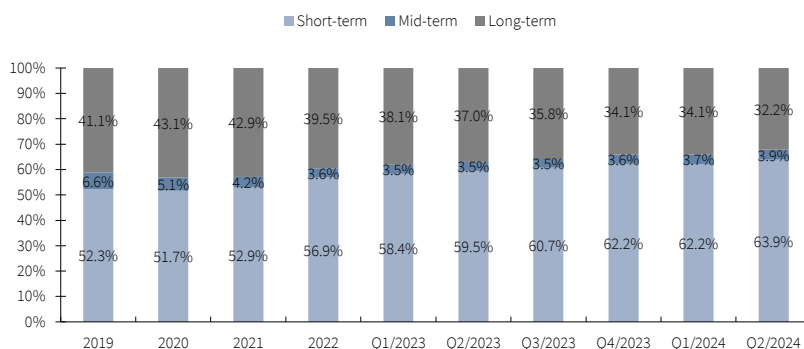
Average CoF is expected to decrease as in the 2021–2022 period when deposit interest rates increase again but remain at a low base level compared to the past.

Fig 8. VCB – CoF, deposit & interbank interest rates (%)



Source: Vietcombank, KB Securities Vietnam

Fig 9. CTG – Credit composition by term (%)

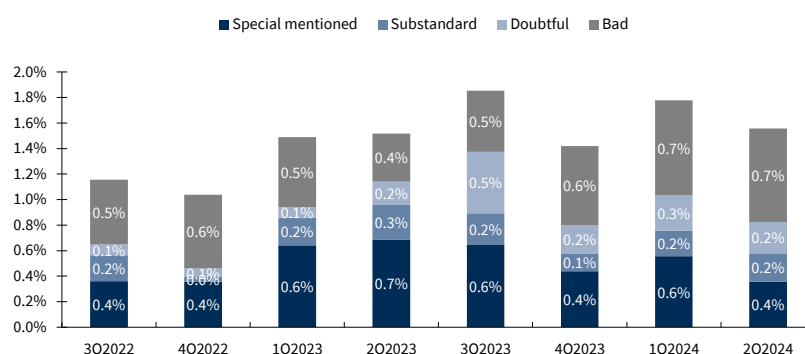


Source: Vietcombank, KB Securities Vietnam

Asset quality is well controlled

Asset quality continues to be well controlled with 2Q NPL reaching 1.2%, the lowest in the system. The ratio of newly formed bad debts is estimated at a low level, and the LLCR is 212.1%, the highest in the industry. With the current asset quality and strong reserve buffer, VCB can be flexible in provisioning in 2H24 to achieve the set targets. We estimated the bank's provisions would reach VND7,376 billion for the whole year of 2024.

Fig 10. VCB – NPL in 2022–2024 (%)



Source: Vietcombank, KB Securities Vietnam

Fig 21. Vietnam banks – NPL in 2022–2024 (%)

	% NPL	QoQ	% group 2	QoQ	Provision (Billion VND)	LLCR
VPB	5.08%	0.24%	7.83%	-0.48%	-15,247	48.1%
VIB	3.66%	0.06%	4.46%	-1.19%	-4,910	48.1%
OCB	3.12%	0.25%	2.42%	-0.20%	-2,601	54.6%
MSB	3.08%	0.09%	2.11%	0.36%	-3,007	58.6%
EIB	2.64%	0.21%	1.04%	-0.16%	-1,599	40.0%
STB	2.43%	0.15%	0.70%	-0.15%	-8,752	69.7%
HDB	2.10%	0.14%	4.50%	-0.22%	-4,767	58.8%
TPB	2.06%	0.17%	2.61%	-0.07%	-2,902	66.0%
LPB	1.73%	0.34%	1.14%	0.34%	-4,228	77.1%
MBB	1.64%	0.85%	1.84%	-0.46%	-11,215	101.7%
CTG	1.57%	0.22%	1.44%	-0.15%	-28,040	113.8%
BID	1.52%	0.02%	1.59%	-0.46%	-37,929	132.2%
ACB	1.48%	0.27%	0.53%	-0.12%	-6,319	77.8%
TCB	1.23%	0.10%	0.82%	-0.27%	-7,370	101.1%
VCB	1.20%	0.02%	0.36%	-0.20%	-34,884	212.1%

Source: Vietnam banks, KB Securities Vietnam

The private placement plan has not seen much progress

On August 13, 2024, the Management of VCB decided to remove the private offering plan to increase charter capital from the minutes of the extraordinary shareholders' meeting held on August 19, 2024. Accordingly, the plan on offering 6.5% of shares proposed by VCB since 2019 has not yet made any major progress. According to information at the 2024 AGM earlier, the bank expected to complete the deal between 2024 and 2025.

Forecast & valuation

Table 12. VCB – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
NII	53,621	59,848	11.6%	69,083	15.4%	Interest income growth comes from expectations of 14% credit growth in 2024 and improved NIM.
NFI	5,780	6,218	7.6%	6,653	7.0%	
TOI	67,723	74,191	9.5%	84,494	13.9%	
Provisions	(4,565)	(7,376)	61.6%	(12,624)	71.1%	Maintain the old forecast, reduce the NPL coverage ratio to 218%.
NP after MI	33,033	34,733	5.1%	36,246	4.4%	Maintain the NIM forecast in 2024, reflecting expectations of low deposit interest rates while the decline in lending rates slows down.
NIM	3.00%	3.13%	13bps	3.24%	11bps	
Average IEA	6.04%	5.33%	-71bps	5.71%	38bps	
Average CoF	3.41%	2.48%	-93bps	2.80%	33bps	
CIR	32.4%	31.5%	-86bps	31.4%	-10bps	
NPL	0.98%	1.20%	22bps	1.20%	0bps	
Total assets	1,839,613	2,017,229	9.7%	2,269,692	12.5%	
Owner's equity	165,013	199,745	21.0%	235,991	18.1%	

Source: Vietcombank, KB Securities Vietnam

Valuation: BUY rating – Target price VND103,300/share

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

(1) P/B valuation method:

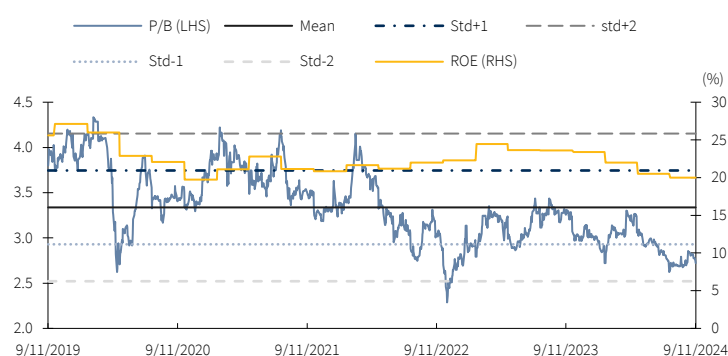
We maintain the 2024 forecast P/B at 3.8x, equivalent to +1 standard deviation of VCB's five-year P/B average, based on the prospect of improved NIM, expected credit growth, and best asset quality among banks.

(2) Residual income method (Table 14)

In addition, we also use a residual income model to reflect systemic risks and long-term expectations.

Combining the two methods with a 50–50 ratio, we found the final fair price for VCB shares for 2024 is VND103,300 apiece, 16.9% higher than the price on September 11, 2024.

Fig 12. VCB – P/B in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

Table 13. VCB – Valuation according to residual income method

(VNDbn)	2024F	2025F	2026F
NPAT	34,756	36,271	40,896
Excessed return	16,852	14,599	15,291
Required rate of return (r)	10.85%		
Growth (g)	3.0%		
Terminal value	127,428		
2024-end fair value	396,136		
Value per share	70,877		

Source: KB Securities Vietnam

Table 13. VCB – Valuation according to residual income method

Valuation method	Forecast price	Weighting	Weighted price
P/B	135,806	50%	67,903
Residual income	70,877	50%	35,438
Target price			103,300

Source: KB Securities Vietnam

VCB – 2022A–2025F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Net interest income	42,273	53,246	53,621	59,848	69,083	Loans	935,010	1,120,287	1,241,675	1,416,459	1,614,292
Interest income	70,622	88,113	108,122	101,945	121,586	Marketable securities	2,800	1,500	2,495	2,878	2,952
Interest expense	(28,349)	(34,866)	(54,501)	(42,097)	(52,503)	Cash (ex. Reserves)	18,012	18,349	14,505	15,051	17,168
Fees & commissions	7,407	6,839	5,780	6,218	6,653	Interest earning assets	1,386,650	1,759,898	1,819,045	2,004,396	2,255,793
Other non-interest income	2,393	2,054	2,272	2,042	2,175	Fixed assets & other assets	39,947	71,157	40,584	36,341	39,791
Total operating income	56,630	68,083	67,723	74,191	84,494	Total assets	1,414,986	1,813,815	1,839,613	2,017,229	2,269,692
SG&A expenses	(17,666)	(21,251)	(21,915)	(23,370)	(26,531)	Customer deposits	1,135,324	1,243,468	1,395,698	1,448,209	1,650,959
Pre-provisioning OP	38,964	46,832	45,809	50,821	57,963	Borrowings & call money/repos	17,395	25,341	20,031	26,485	29,663
Provision for credit losses	(11,478)	(9,464)	(4,565)	(7,376)	(12,624)	Interest bearing liabilities	1,271,945	1,568,635	1,631,238	1,767,570	1,976,826
Other income	3,100	2,928	4,050	3,141	3,346	Other liabilities	33,855	109,534	43,362	49,914	56,875
Other expense	(707)	(874)	(1,778)	(1,099)	(1,171)	Total liabilities	1,305,800	1,678,169	1,674,601	1,817,483	2,033,701
Pre-tax income	27,486	37,368	41,244	43,445	45,339	Charter capital	37,089	47,325	55,891	55,891	55,891
Income tax expense	(5,469)	(7,449)	(8,189)	(8,689)	(9,068)	Capital surplus	4,995	4,995	4,995	4,995	4,995
NP	22,017	29,919	33,054	34,756	36,271	Retained earnings	48,503	60,733	76,759	111,491	147,737
Minority interest profit	(20)	(20)	(21)	(23)	(26)	Capital adjustments	-	-	-	-	-
Parent NP	21,997	29,899	33,033	34,733	36,246	Total shareholders' equity	109,186	135,646	165,013	199,745	235,991

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	21.7%	24.4%	22.0%	19.1%	16.6%	EPS	5,931	6,318	5,910	6,214	6,485
ROA	16%	19%	18%	18%	17%	BVPS	29,439	28,663	29,524	35,738	42,223
Pre-provision ROE	30.7%	30.6%	24.4%	22.3%	21.3%	Tangible BVPS	28,611	28,068	29,060	35,283	41,777
Pre-provision ROA	2.3%	2.3%	2.0%	2.1%	2.2%	Valuations					
Net interest margin (NIM)	3.1%	3.4%	3.0%	3.1%	3.2%	PER	15.1	14.2	15.1	14.4	13.8
Efficiency						PBR	3.0	3.1	3.0	2.5	2.1
Pure Loan to deposit ratio	84.6%	92.1%	91.0%	100.0%	100.0%	Dividend yield	0.2%	0.0%	0.0%	0.0%	0.0%
Cost-income ratio	312%	312%	32.4%	315%	314%	ROE	21.7%	24.4%	22.0%	19.1%	16.6%
Growth						Capital Adequacy					
Asset growth	6.7%	28.2%	14%	9.7%	12.5%	CAR	9.0%	10.0%	11.6%	>10%	>10%
Loan growth	13.9%	19.8%	10.8%	14.0%	14.0%	Asset Quality					
PPOP growth	18.0%	20.2%	-2.2%	10.9%	14.1%	NPL ratio (substandard)	0.6%	0.7%	1.0%	1.2%	1.2%
Parent NP growth	19.2%	35.9%	10.5%	5.1%	4.4%	Coverage ratio (substandard)	424.4%	316.9%	230.3%	188.5%	185.1%
EPS growth	19.2%	6.5%	-6.4%	5.1%	4.4%	NPL ratio (precautionary)	1.0%	1.0%	1.4%	1.6%	1.6%
BVPS growth	16.0%	-2.6%	3.0%	21.0%	18.1%	Coverage ratio (precautionary)	270.0%	208.2%	159.2%	141.3%	138.8%

Source: Vietcombank, 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:	Neutral:	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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