

VIB Bank (VIB)

Taking time to recover

September 24, 2024

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1H24 PBT reached VND4,605 billion, lower than KBSV's forecast

Credit of Vietnam International Bank (VIB) grew 4.6% YoY in 2Q after a subdued 1Q. Operating expenses and credit costs remained high YoY, so the bank's PBT hit VND2,103 billion in 2Q and VND4,605 billion in 1H24, lower than our expectations (fulfilling 35% of the forecast).

Lower credit growth forecast for 2024 to 15%

We lowered our credit growth forecast for 2024 to 15% after realizing that some lending segments still need more time to recover. Changing credit structure will help VIB balance its growth target in the current difficult situation, but this is only temporary and does not imply a change in the bank's long-term retail strategy. Prioritizing growth will come at the cost of lower NIM because lending yields for corporates are lower than for individuals.

NIM may hardly recover in the short term but will return to high levels in the long term

KBSV assesses that the bank's NIM is unlikely to improve in the short term, so we lowered our NIM forecast for 2024 and 2025 to 4.09% and 4.22%. We expect NIM to improve and return to 4.3–4.5% in the long term when demand for loans in the retail lending segment fully recovers.

Valuation: BUY rating – Target price VND25,500/share

Lower forecasts for credit growth, NIM, and net profit also affect 2024–2025 ROE, so we downgraded our target P/B for 2024 to 1.4x. VIB's new target price is VND25,500/share, but we maintained our BUY recommendation with a potential upside of 38% compared to the closing price on September 23, 2024.

Buy maintain

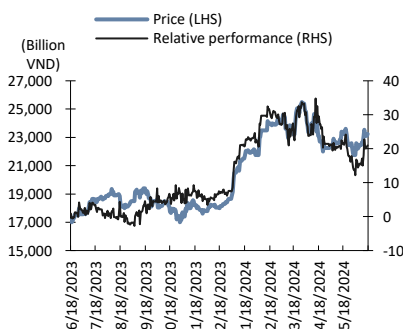
Target price	VND24,600
Upside	33.0%
Current price (Sep 23, 2024)	VND18,500
Consensus target price	VND20,900
Market cap (VNDtn/USDtn)	55.1/2.2

Trading data	
Free float	76.7%
3M avg trading value (VNDbn/USDmn)	66.3/2.6
Foreign ownership	4.3%
Major shareholder	Commonwealth Bank of Australia (19.84%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0.5	1.6	-10.6	6.6
Relative	1.9	0.5	-9.5	0.3

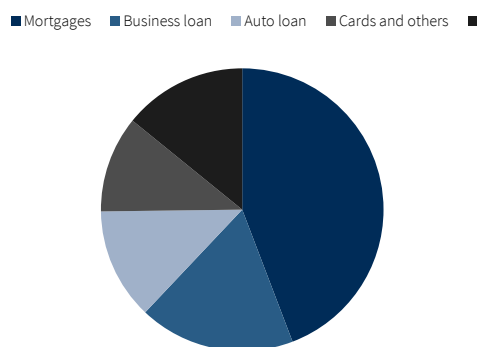
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	14,963	17,361	17,649	20,744
Operating income/loss (VNDbn)	11,861	15,550	14,850	17,312
NPAT-MI (VNDbn)	8,469	8,563	8,427	10,327
EPS (VND)	4,018	3,376	3,322	4,071
EPS growth (%)	-3%	-16%	-2%	23%
P/E (x)	4.6	5.5	5.6	4.5
P/B (x)	1.19	1.24	1.07	0.90
ROE (%)			20.6%	21.5%
Dividend yield (%)	3.24%	3.24%	3.24%	5.41%



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Vietnam International Bank, KB Securities Vietnam

Business operation

Vietnam International Commercial Joint Stock Bank (VIB) aims to become a leading retail lending bank in Vietnam with main products including home loans, car loans and business loans. The proportion of retail loans has been maintained at 85–90% of total outstanding loans for many years. In 2019, VIB completed the three pillars of Basel II and is applying governance according to Basel III. With a strategy of focusing on retail lending, the bank always maintains a high ROE compared to the whole industry, at 20–25%.

Investment Catalysts

Shifting to the retail segment has brought the highest profitability in the industry in recent years.

Key products in the retail segment (home loans, business loans, car loans) will have much potential for long-term growth and are the main drivers of profits.

NIM has not yet recovered but will return to high levels in the long term.

Bad debt is expected to be controlled after tighter policies in asset quality management.

Notes

Please find more details [here](#)

Please see more details below

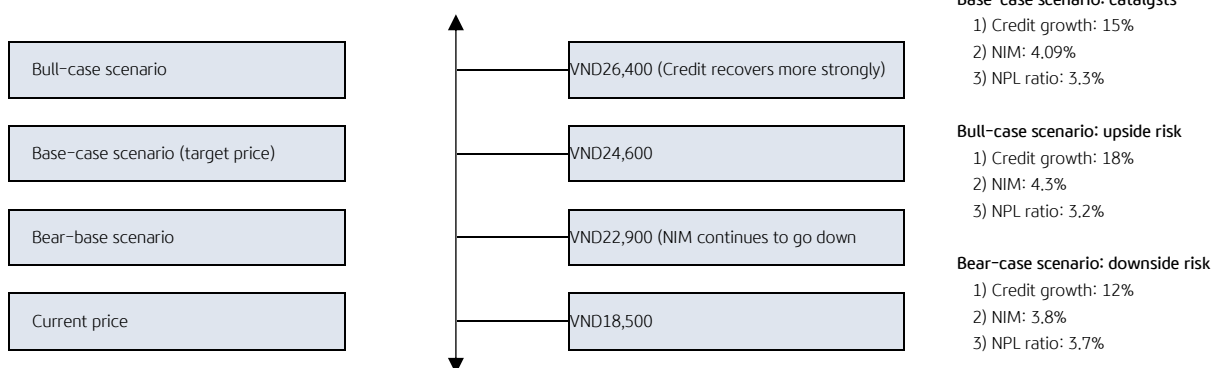
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	17,649	20,744	-10%	-11%	-	-	-	-
EBIT	14,850	17,312	-15%	-15%	-	-	-	-
NP after MI	8,427	10,327	-20%	-19%	7,809	10,195	8%	1%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

1H24 PBT reached VND4,605 billion, lower than KBSV's forecast

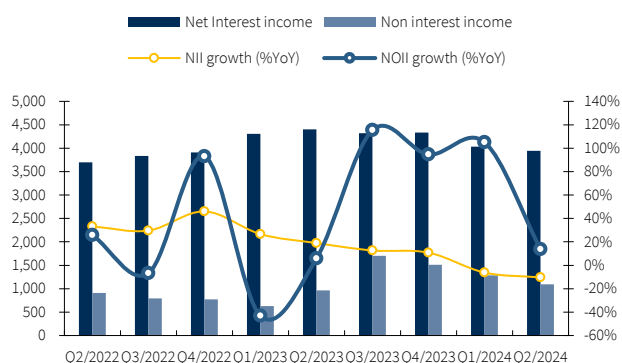
Credit recovered in 2Q after a less positive performance in 1Q, growing 4.6% compared to the end of 2023. However, the sharp decline in NIM made NII decrease to VND3,946 billion (-10.4% YoY). NOII grew 13.7% YoY, offsetting the decline in NFI, so TOI dipped 6% YoY. Operating expenses and credit costs remained high compared to the same period, causing the bank's PBT to reach VND2,103 billion in 2Q and VND4,605 billion in 1H24, lower than our expectation (fulfilling 35% of the forecast).

Table 1. VIB – 2Q24 updated results

(VNDbn, %)	2Q23	1Q24	2Q24	YoY	QoQ	Notes
Net interest income (NII)	4,402	4,036	3,946	-10.4%	-2.2%	Credit growth recovered in 2Q, but NIM decreased sharply, resulting in a decrease of more than 10% YoY in NII.
Non-interest income ((NOII))	962	1,283	1,094	13.7%	-14.7%	NOII continued to offset the negative growth in NII and mainly recorded strong growth in debt collection activities, reaching VND290 billion (+77% YoY). Meanwhile, NFI remained flat compared to the previous quarter, and income from foreign exchange activities only reached VND26 billion (-91% QoQ, +162% YoY) vs VND290 billion in 1Q.
Total operating income (TOI)	5,364	5,319	5,039	-6.1%	-5.3%	
Operating expenses (OPEX)	(1,556)	(1,871)	(1,806)	16.1%	-3.5%	Operating expenses have surged since 1Q mainly due to a sharp increase in staff costs and branch expansion activities.
Cost to income ratio (CIR)	29.0%	35.2%	35.8%	6.8%	0.7%	
Credit loss provisions	(860)	(945)	(1,130)	31.4%	19.5%	Provisions jumped as the bank focused on handling bad debts, but provisions in 2H24 are expected to decrease compared to 1H24.
Profit before taxes (PBT)	2,948	2,502	2,103	-28.7%	-15.9%	
Profit after taxes (NPAT)	2,358	2,001	1,683	-28.6%	-15.9%	
Credit growth (YTD)	0.8%	0.4%	4.6%			Credit growth of 4.2% in 2Q alone showed initial signs of recovery, although the cumulative growth only completed 28% of the assigned limit (16%). Retail lending still accounts for a large proportion of the portfolio (82%) but has decreased sharply compared to 90% in 2022 when the bank proactively adjusted its lending strategy to the corporate group in 1H24. In addition, outstanding corporate bonds, mainly to manufacturing and trading companies, were VND592 billion (stable compared to the previous quarter), accounting for only about 0.2% of total credit.
Deposit growth (YTD)	11.2%	1.4%	6.1%			
NIM	4.66%	4.50%	4.16%	-49bps	-35bps	NIM continued to decrease even with stronger pace than in 1Q mainly due to (1) VIB lowering interest rates to compete with other banks and (2) the lending structure shifting from the group of private enterprises to SMEs (with lower yields).
NPL	3.63%	3.60%	3.66%	2bps	5bps	NPL ratio remained unchanged from the previous quarter after the bank spent more than VND1 trillion to handle NPLs. Bad debt rose 18% QoQ, but at the same time, special mention decreased by 18% QoQ.

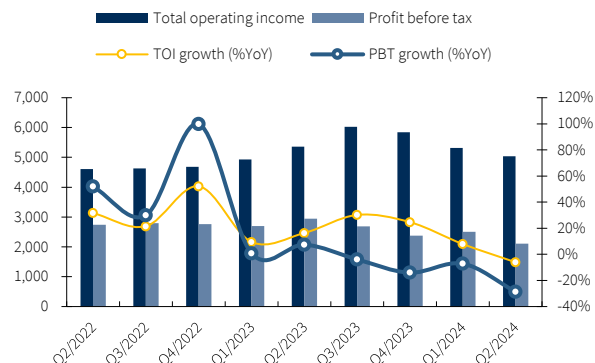
Source: Vietnam International Bank, KB Securities Vietnam

Fig 2. VIB – NII & NOI by quarter (VNDbn)



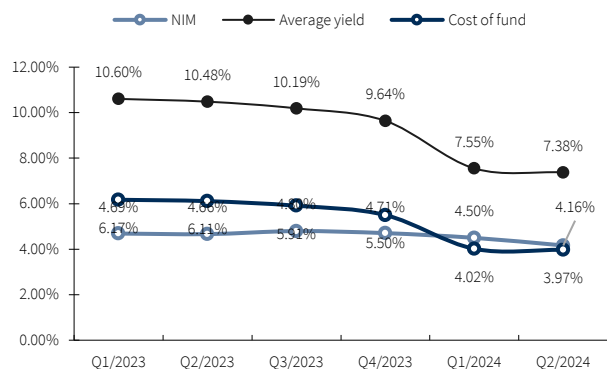
Source: Vietnam International Bank, KB Securities Vietnam

Fig 3. VIB – TOI & PBT (VNDbn)



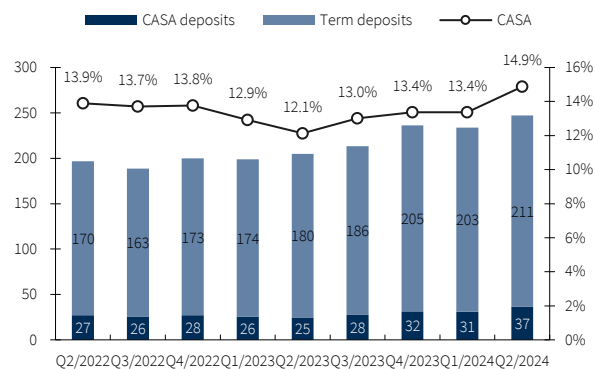
Source: Vietnam International Bank, KB Securities Vietnam

Fig 4. VIB – NIM by quarter (%)



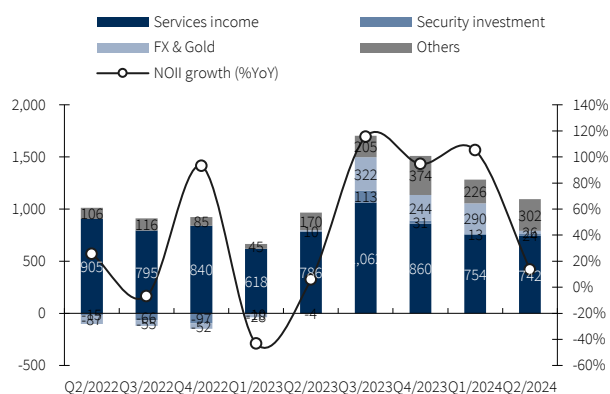
Source: Vietnam International Bank, KB Securities Vietnam

Fig 5. VIB – Deposit breakdown



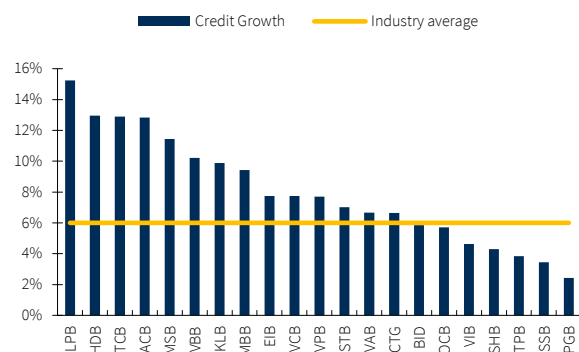
Source: Vietnam International Bank, KB Securities Vietnam

Fig 6. VIB – NOI components



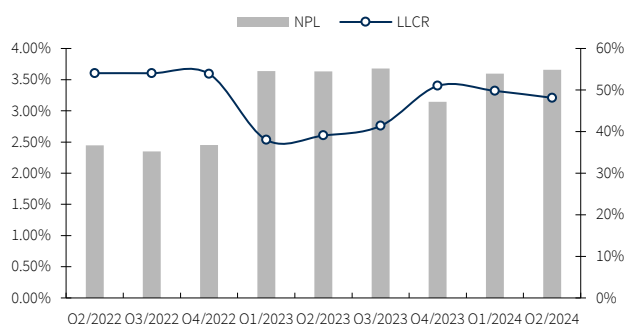
Source: Vietnam International Bank, KB Securities Vietnam

Fig 7. Vietnam banks – Credit growth (%)



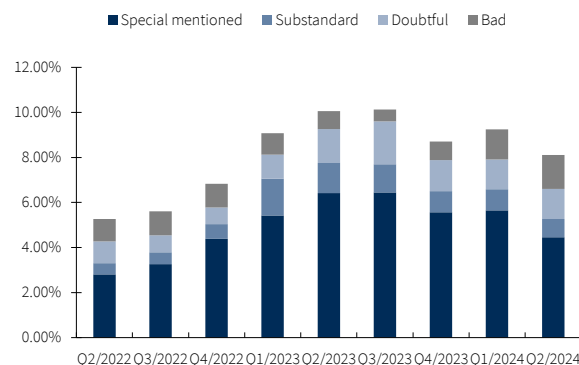
Source: Vietnam banks, KB Securities Vietnam

Fig 8. VIB – NPL & LLCR (%)



Source: Vietnam International Bank, KB Securities Vietnam

Fig 9. VIB – NPL/total credit ratio (%)



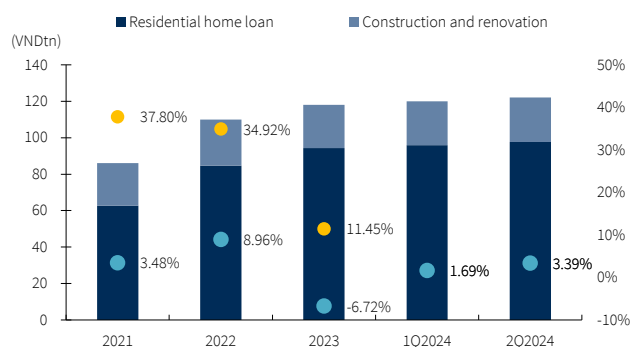
Source: Vietnam International Bank, KB Securities Vietnam

We lowered credit growth forecast for 2024 to 15% as key lending products take more time to recover

We adjust our credit growth forecast for 2024 to 15% after seeing that some lending segments still need more time to recover. The proportion of retail lending will decrease to 82% from 90% at the end of 2022 as VIB change credit to corporate customers, similar to many other retail banks amid slow growth in personal lending in the first six months of the year. (1) VIB's home loans increased by 1.7% in 2Q (+3.4% YoY), which is slower than some banks under our coverage due to the recovery of the real estate market in the South (VIB's main operating area) slower than the market in the North. KBSV expects the real estate market to be more positive in the final months of the year, benefiting home loans. (2) Car loans remained flat in 2Q, but the outlook will be more positive in the second half of the year after the Decree reduces 50% of registration fees, effective from August 1, 2024 to January 31, 2025. (3) Lending to business households will develop in line with the general recovery of the economy.

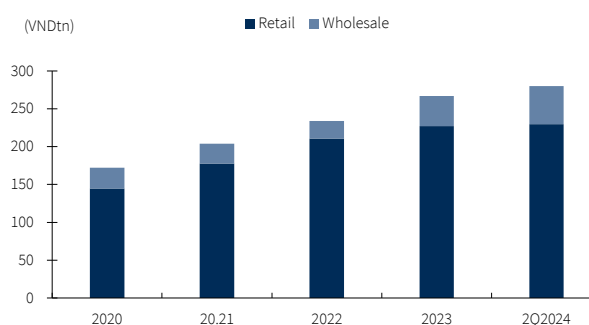
Corporate credit (including large and SMEs) is expected to increase its proportion to 20% from the current 18%, leading the bank's credit growth in 2024. VIB said that for the corporate customer group, it will only focus on lending to leading enterprises, while the main product for the SME group is working capital financing loans. We believe that shifting the credit structure will help VIB balance its growth targets in the current difficult context, but this is only temporary and does not imply a change in the bank's long-term retail strategy. Prioritizing growth will come at the cost of a decline in NIM because lending yields for corporates are lower than for individuals.

Fig 10. VIB – Home loan components



Source: Vietnam International Bank, KB Securities Vietnam

Fig 11. VIB – Wholesale & retail lending proportion



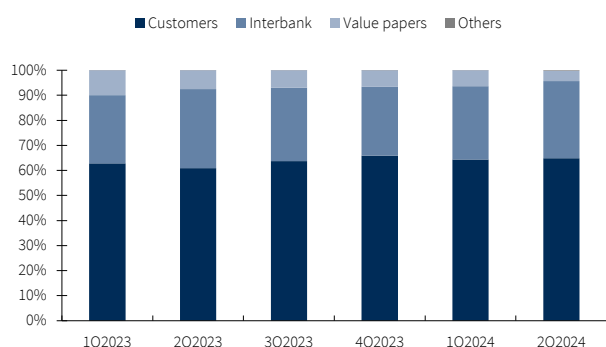
Source: Vietnam International Bank, KB Securities Vietnam

NIM has not yet recovered but will return to a high level in the long term

NIM continued to decline more sharply in 2Q (-33bps QoQ) but we assess that the decline in NIM is only temporary, and it will recover in the near future:

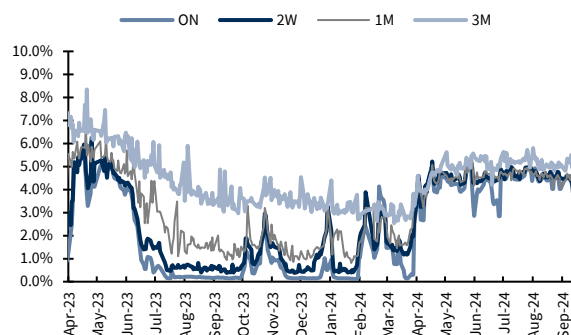
- IEA fell 17bps this quarter due to reasons related to interest rate competition and loan restructuring as mentioned above. However, KBSV believes that lending interest rates have bottomed out and will increase again along with the increase in deposit interest rates in the past time. In addition, allocating loans to enterprises will give lower yields, but this is only a temporary strategy of VIB, and with the main activity being the consumer finance segment and the expectation of recovery of this group in the near future, IEA will recover slightly compared to the first two quarters of the year.
- 2Q CoF only fell by 4bps QoQ, a modest decrease compared to other banks under our coverage. This can be explained by the characteristics of capital mobilization structure when about 30% comes from interbank, including international syndicated loans and customer loans. Interbank interest rates have been maintained at a high level of 4.5–5% in the past, affecting VIB's capital cost management. However, the current exchange rate pressure has been eased, we forecast that interbank interest rates will reset to a lower level, while customer deposit interest rates also do not have much motivation to increase as strongly as in the previous period. Therefore, we expect the improvement in CoF to be more positive in the coming time. KBSV assesses that banks' NIMs are unlikely to improve in the short term, so we lower our NIM projections for 2024 and 2025 to 4.09% and 4.22%. We expect NIMs to improve and return to 4.3–4.5% in the long term when loan demand in key retail lending segments fully recovers.

Fig 12. VIB – Deposit components



Source: Vietnam International Bank, KB Securities Vietnam

Fig 13. VIB – Interbank interest rates by term (%)



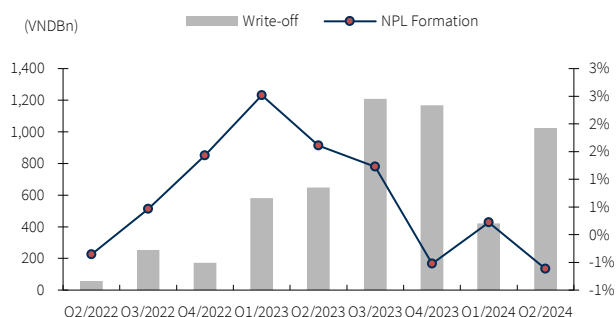
Source: Vietnam International Bank, KB Securities Vietnam

NPL is expected to be controlled after tighter policies on asset quality management

NPL ratio remained stable compared to the previous quarter, but the amount of NPL handled also increased sharply in 2Q (about more than VND 1,000 billion, doubling that of the previous quarter). The positive point in improving asset quality is shown in the 18% QoQ decrease in special mention and the sharp decrease in the NPL formation ratio. This may be a consequence of the application of asset quality control measures that we mentioned in the previous report. Provisions still increased sharply in 2Q (+15%QoQ), but we expect that with the current developments, provisioning pressure will ease in the second half of 2024. In addition, the bank also expects recovery from processed bad debts to increase sharply in 2H24, with a cumulative revenue of about VND500 billion in 1H24 (compared to the expected revenue for the whole year of VND1,000–1,500 billion).

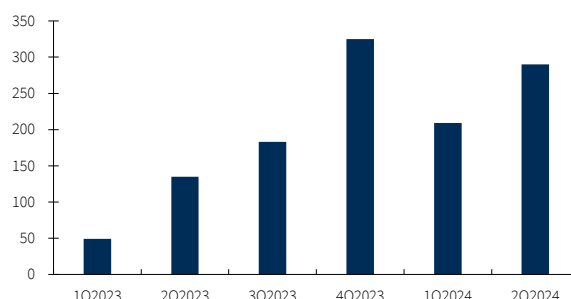
Debt restructured under Circular 02 has tended to decrease since 4Q23, currently at VND582 billion (~0.2% of outstanding credit).

Fig 14. VIB – NPL & NPL formation (%)



Source: Vietnam International Bank, KB Securities Vietnam

Fig 15. VIB – Bad debt recovery (VNDbn)



Source: Vietnam International Bank, KB Securities Vietnam

Forecast & valuation

Table 6. VIB – 2024–2025F updated results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Assumptions
NII	17,361	17,649	1.7%	20,744	17.5%	2024F credit growth was lowered to 15% as only 1/3 of the limit has been met after the first six months of the year. Credit is expected to recover better in 2H23. We maintained the forecast for debt collection activities but slightly reduced NFI forecast as bancassurance activities cannot recover immediately.
NOII	4,800	5,197	8.3%	5,486	5.6%	
TOI	22,160	22,846	3.1%	26,230	14.8%	
PPOP	15,550	14,850	-4.5%	17,312	16.6%	
Provisions	(4,846)	(4,316)	-10.9%	(4,403)	2.0%	
PBT	10,704	10,534	-1.6%	12,909	22.5%	
NIM	4.71%	4.09%	-62bps	4.22%	13bps	KBSV lowered NIM forecast after adjusting IEA and CoF in line with the bank's temporary lending restructuring strategy. NIM is expected to recover to 4.3–4.5% in 2026–2027.
Average IEA	9.64%	7.64%	-200bps	7.98%	34bps	
Average CoF	5.50%	3.92%	-158bps	4.12%	20bps	
CIR	29.8%	35.0%	517bps	34.0%	-100bps	VIB will focus investment on branch expansion, resulting in higher operating costs.
NPL	3.14%	3.30%	16bps	3.00%	-30bps	The bank will keep the NPL ratio at 3.3% by the end of 2024 and improve to 3% next year.
Total assets	409,881	469,921	14.6%	535,666	14.0%	
Owner equity	37,940	43,839	15.5%	52,240	19.2%	

Source: Vietnam International Bank, KB Securities Vietnam

Valuation: BUY rating – Target price VND25,500/share

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

(1) P/B valuation method:

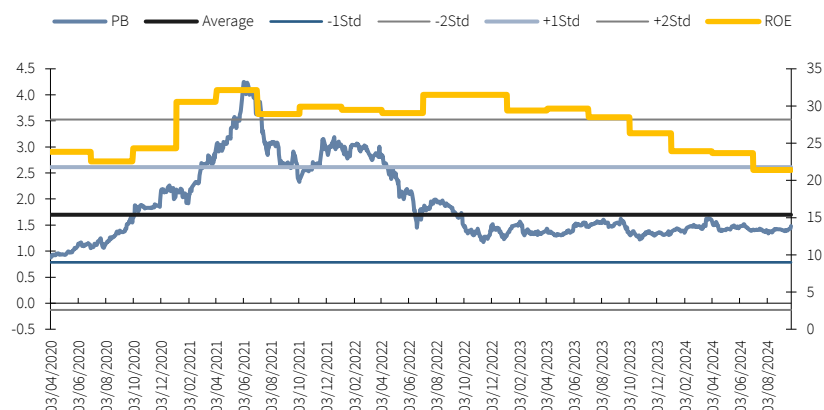
After decreasing the forecast with some indicators on credit growth, NIM, and net profit, which also partly affect ROE 2024–2025, we lowered the target P/B for 2024 to 1.4x.

(2) Residual income method:

In addition, we combine the use of the discounted residual profit method to reflect systematic risks and long-term expectations.

VIB's new target price is VND25,500/share. We give a BUY rating with a potential upside of 38% compared to the closing price on September 23, 2024.

Fig 17. VIB – ROE & P/E (% , x)



Source: Bloomberg, KB Securities Vietnam

Table 18. VIB – 2024 valuation according to residual income model

(VNDbn)	2024F	2025F	2026F
PAT	8,427	10,327	13,238
Excessed return	2,547	3,532	5,141
Required rate of return (r)	13,5%		
Growth (g)	3,0%		
Terminal value	13,187		
Present value (PV)	67,997		
Price	26,804		

Source: KB Securities Vietnam

Table 19. VIB – Final valuation & target price (VND)

Valuation method	Forecast price	Weight	Price per weight
Residual income	26,804	50%	13,402
P/B	24,193	50%	12,097
Price target			25,500

Source: KB Securities Vietnam

VIB – 2022A–2025F financials

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	11,816	14,963	17,361	17,649	20,744	Loans	199,116	228,879	262,075	301,072	347,165
Interest income	20,975	27,509	35,568	32,970	39,224	Marketable securities	-	-	-	-	-
Interest expense	(9,159)	(12,547)	(18,207)	(15,321)	(18,480)	Cash (ex. Reserves)	1,522	1,618	1,681	2,059	2,368
Fees & commissions	2,742	3,188	3,327	3,230	3,652	Interest earning assets	299,149	334,199	403,760	459,454	523,228
Other non-interest income	221	355	792	1,251	978	Fixed assets & other assets	11,107	9,936	8,548	13,471	14,985
Total operating income	14,891	18,058	22,160	22,846	26,230	Total assets	309,517	342,799	409,881	469,921	535,666
SG&A expenses	(5,282)	(6,197)	(6,611)	(7,996)	(8,918)	Customer deposits	173,565	200,124	236,577	271,060	311,719
Pre-provisioning OP	9,609	11,861	15,550	14,850	17,312	Borrowings & call money/repos	42,371	31,783	23,904	37,367	38,900
Provision for credit losses	(1,598)	(1,280)	(4,846)	(4,316)	(4,403)	Interest bearing liabilities	280,392	303,073	359,121	422,272	475,306
Other income	280	408	850	1,317	1,151	Other liabilities	4,834	7,075	12,821	3,810	8,120
Other expense	(59)	(53)	(59)	(66)	(173)	Total liabilities	285,226	310,148	371,942	426,082	483,426
Pre-tax income	8,011	10,581	10,704	10,534	12,909	Charter capital	15,531	21,077	25,368	25,368	25,368
Income tax expense	(1,601)	(2,112)	(2,141)	(2,107)	(2,582)	Capital surplus	1	2	2	2	2
NP	6,410	8,469	8,563	8,427	10,327	Retained earnings	6,971	9,055	9,099	14,999	23,400
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	6,410	8,469	8,563	8,427	10,327	Total shareholders' equity	24,291	32,651	37,940	43,839	52,240

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	30.3%	29.7%	24.3%	20.6%	21.5%	EPS	4,127	4,018	3,376	3,322	4,071
ROA	2.3%	2.6%	2.3%	1.9%	2.1%	BVPS	15,640	15,492	14,956	17,281	20,593
Pre-provision ROE	36.4%	33.3%	35.2%	29.1%	28.8%	Tangible BVPS	15,445	15,353	14,842	17,157	20,459
Pre-provision ROA	2.8%	2.9%	3.3%	2.7%	2.8%	Valuations					
Net interest margin (NIM)	4.4%	4.7%	4.7%	4.1%	4.2%	PER	4.5	4.6	5.5	5.6	4.5
Efficiency						PBR	1.2	1.2	1.2	1.1	0.9
Pure Loan to deposit ratio	116.1%	115.9%	112.6%	113.0%	113.0%	Dividend yield	30.3%	29.7%	24.3%	20.6%	21.5%
Cost-income ratio	35.5%	34.3%	29.8%	35.0%	34.0%	ROE					
Growth						Capital Adequacy					
Asset growth	26.5%	10.8%	19.6%	14.6%	14.0%	CAR	11.0%	11.2%	12.8%	>13%	>13%
Loan growth	18.7%	14.9%	14.5%	14.9%	15.3%	Asset Quality					
PPOP growth	42.3%	23.4%	31.1%	-4.5%	16.6%	NPL ratio (substandard)	2.3%	2.5%	3.1%	3.3%	3.0%
Parent NP growth	38.1%	32.1%	1.1%	-1.6%	22.5%	Coverage ratio (substandard)	51.3%	53.8%	51.0%	51.7%	48.0%
EPS growth	-1.4%	-2.6%	-16.0%	-1.6%	22.5%	NPL ratio (precautionary)	4.9%	6.8%	8.7%	8.3%	8.0%
BVPS growth	-3.5%	-0.9%	-3.5%	15.5%	19.2%	Coverage ratio (precautionary)	24.1%	19.3%	18.4%	20.6%	18.0%

Source: Vietnam International Bank, 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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