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4Q22 PBT reached VND1,383 billion, down 51.4% YoY due to accelerated provisioning

Vietnam Prosperity Bank's (VPB) 4Q22 NII reached VND10,283 billion (+20.6% YoY, -1.0% QoQ). Provision expenses peaked at VND7,320 billion (+35% QoQ, +36.3% YoY), lowering PBT to only VND1,383 billion (-69.4% QoQ, -51.4% YoY). 2022 accumulated PBT gained 47.7% YoY to VND21,220 billion.

Risks from outstanding loans of real estate and bonds in 2023

The ratio of loans to real estate and construction businesses and home loans to total credit balance reached 36.5%, up 4.3pp YoY. Besides, VPB's corporate bond was VND40,518 billion, accounting for 8.5% of total credit. High proportion of loans in this group poses potential credit risks in the coming time.

VPBank Securities raised charter capital to VND15,000 billion

In 4Q22, VPBank Securities JSC completed raising its charter capital from VN8,920 billion to VND15,000 billion. This made VPBank Securities the securities company with the largest charter capital in Vietnam.

VPB's selling capital to strategic shareholders should progress

On January 16, 2023, SMBC Group announced its divestment from Vietnam Export-Import Bank (EIB) and reaffirmed its strategic cooperation relationship with VPB. KBSV expects this move will have a positive impact on the process of selling capital to strategic shareholders of VPB in the near future.

BUY recommendation with target price of VND23,000/share

Based on valuation results, business outlook and potential risks, we recommend BUY for VPB stocks. The target price is VND23,000/share, 32.9% higher than the price on March 2, 2023.

Buy maintain

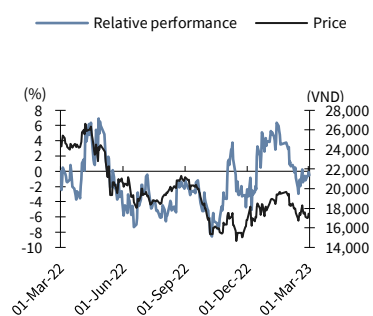
Target price	VND23,000
Upside (%)	32.9
Current price (Mar 2, 2023)	VND17,300
Consensus target price	VND24,828
Market cap (VNDbn)	116,138

Trading data	
Free float	88.7
3M avg trading value (VNDbn/USDmn)	478/20.0
Foreign ownership	17.64
Major shareholder	Composite Capital (5.0%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-5	-5	-17	-31
Relative	-2	0	1	0

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	34,349	41,021	47,121	54,201
Pre-provision operating profit (VNDbn)	33,583	43,681	48,036	56,722
NPAT (VNDbn)	11,477	16,924	17,217	17,879
EPS (VND)	2,601	2,695	2,701	2,829
EPS growth (%)	-37	4	0	5
PER (x)	6.7	6.4	6.4	6.1
Book value per share (VND)	19,149	15,351	17,383	19,413
PBR (x)	0.90	1.13	1.00	0.89
ROE (%)	16.5	17.80	15.6	14.4



Source: Bloomberg, KB Securities Vietnam

Business operation

4Q PBT dropped 51.4% YoY to VND1,383 billion due to accelerated provisioning

VPB's 4Q22 lending grew on low bases in 4Q21. NII reached VND10,283 billion (+20.6% YoY, -1.0% QoQ), of which NII of the parent bank rose 29.1% YoY while FEcredit's NII increased 7.4% YoY. Non-interest income (NOII) hit VND2,485 billion (-2.5% YoY, -19.5% QoQ). Provision expenses peaked at VND7,320 billion (+35% QoQ, +36.3% YoY), pushing PBT down to only VND1,383 billion (-69.4% QoQ, -51.4% YoY). 2022 accumulated PBT gained 47.7% YoY to VND21,220 billion.

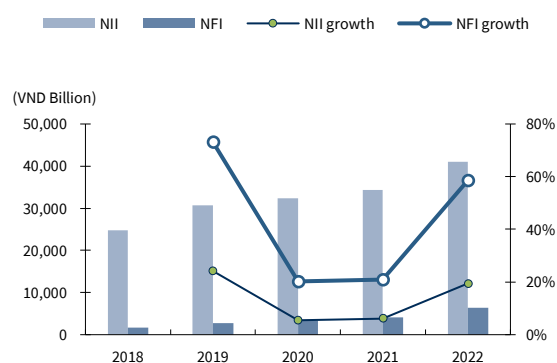
4Q22 credit growth reached 25.0% YTD

4Q22 credit balance climbed 25.0% YTD and 11.4% QoQ, of which credit growth of the parent bank reached 28.3% YTD and credit growth of FEcredit reached 11.8% YTD. Impressive growth was attributable to the acceleration of disbursement in 4Q after the state bank's credit room rose to 26.2%.

4Q22 NIM fell 27bps QoQ due to increased COF

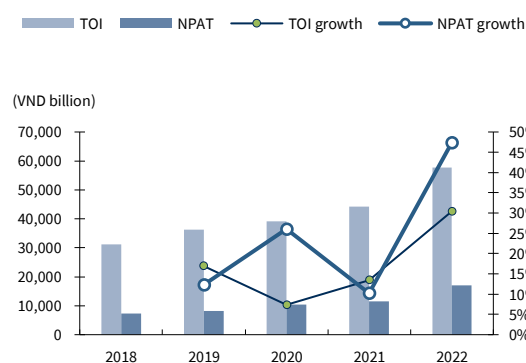
4Q NIM was 7.50% (-27bps QoQ, -13bps YoY), of which NIM of the parent bank reached 5.39%, down 15bps QoQ as the average cost of funds (COF, +15bps QoQ) rose in line with the increase in deposit rates in the whole system and the decrease in CASA ratio. Meanwhile, FEcredit's NIM declined 18bps QoQ to 21.57%, down due to an increase in COF (+92bps QoQ) while earnings yield dropped 16bps QoQ as reducing asset quality affected interest revenue.

Fig 1. VPB – NII & NOII growth (% YoY)



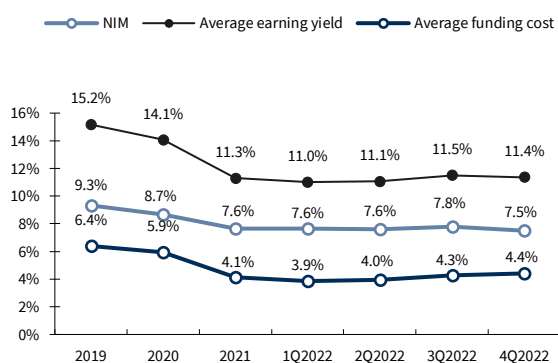
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 2. VPB – TOI & NPAT growth (% YoY)



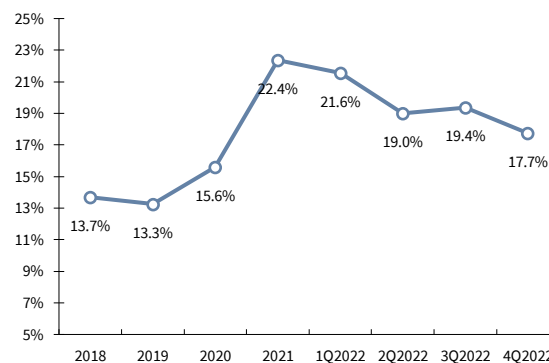
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 3. VPB – Interest rates & NIM (% YoY)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 4. VPB – CASA ratio (% YoY)

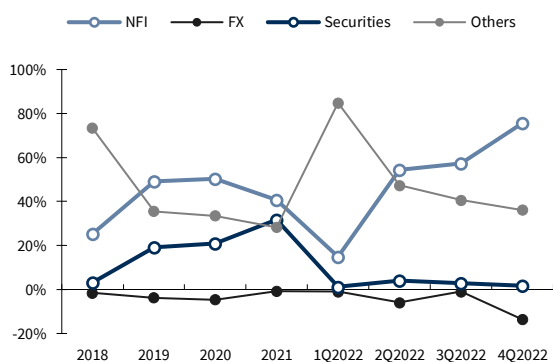


Source: Vietnam Prosperity Bank, KB Securities Vietnam

4Q NOI reached VND3,088 billion, up 16.2% YoY

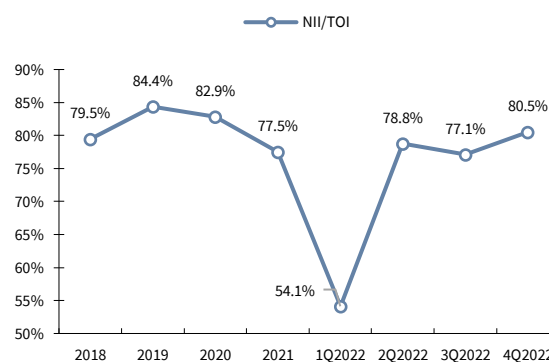
Net interest from services grew to VND1,881 billion in 4Q (+6.3% QoQ, +15.0% YoY), of which interest from payment services gained 69.7% YoY and premium interest climbed 41.6% YoY. Securities trading and investment plunged 94.2% YoY to VND46 billion due to rising interest rates. As a result, 4Q NOI fell 2.5% YoY to VND2,485 billion. 2022 NOI gained 68.6% YoY to VND16,776 billion, mainly supported by service fee interest and upfront fee from bancassurance renegotiation with AIA in 1Q22.

Fig 5. VPB – NOI structure



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 6. VPB – NII/TOI ratio (% YoY)

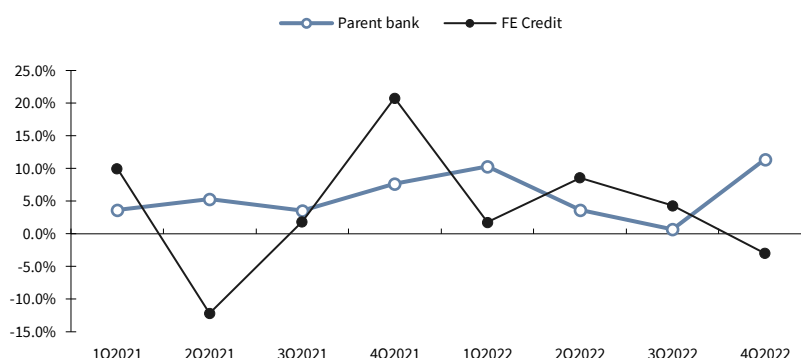


Source: Vietnam Prosperity Bank, KB Securities Vietnam

Parent bank's credit growth reached 11.4% QoQ after the State Bank raised the credit ceiling in 4Q22

FECredit's credit growth fell by 3.0% QoQ mainly due to increased provision

Fig 7. VPB – Credit growth (% QoQ)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

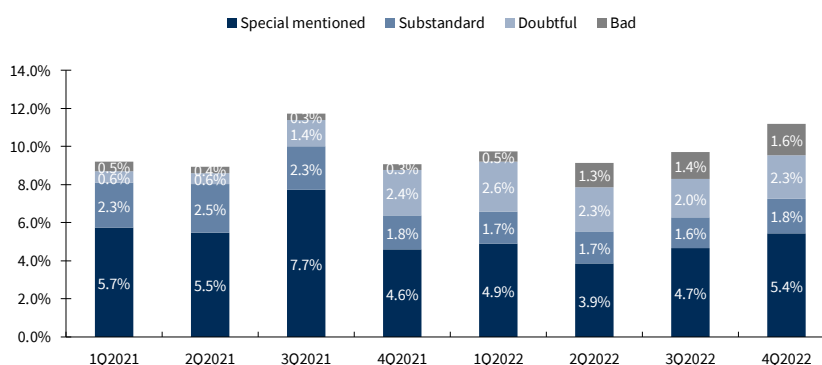
NPL ratio reached 5.73%, increasing 72bps QoQ due to new NPLs from FECredit

4Q22 non-performing loan ratio (NPL) went up 72bps QoQ to 5.73% with substandard, doubtful and bad debts increasing by 22, 27, and 22bps QoQ respectively. The asset quality of the parent bank did not change much with NPL ratio reaching 2.80% (up 15bps QoQ) while FECredit's NPL ratio increased sharply by 5.24pp QoQ to 19.57% (KBSV estimates). FeCredit's asset quality showed many negative signs as the special-mentioned loan ratio was 31.5%, compared to the average of 17.8% in previous years.

VPB accelerated provisioning in 4Q with total value of VND7,320 billion (+35.0% QoQ, +36.3% YoY), of which the parent bank contributed VND2,677 billion (+46.2% QoQ, -5.3% YoY) and FECredit added VND4,643 billion (+29.3% QoQ, +82.5% YoY). Consolidated loan loss coverage ratio (LLCR) was down 7.62pp QoQ to 54.4%, which was in the top low of our tracked banks.

Special mention sharply declined in 4Q22 (+76bps QoQ), potentially posing risks to VPB's asset quality in the coming quarters

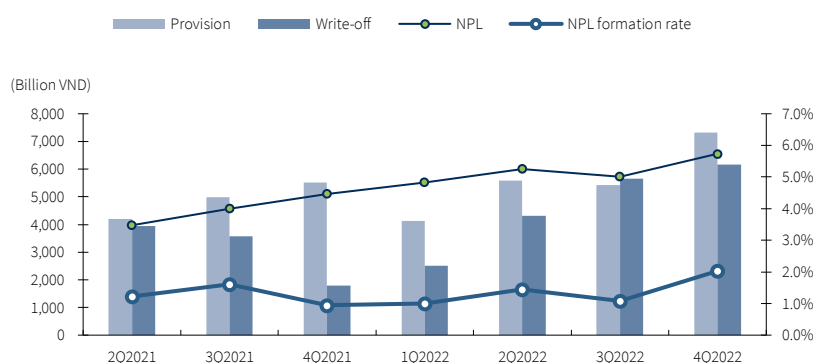
Fig 8. VPB – NPL structure in 2020-2022



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Asset quality is showing signs of going down recently with the NPL formation rate reaching a high of 2.0%

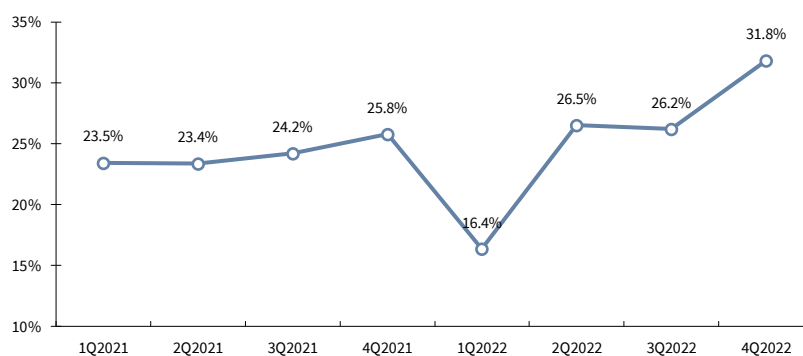
Fig 9. VPB – NPL & provision in 2021–2022 (VNDbn)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

CIR increased because VPB promoted investment in a number of projects related to digital transformation, and marketing, which were slowed down due to COVID-19

Fig 10. VPB – CIR in 2020–2022 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Risks from outstanding loans of real estate and bonds in 2023

In 2022, VPB promotes real estate & construction lending activities with the ratio of loans to real estate and construction businesses and home loans to total credit balance reached 36.5%, up 4.3pp YoY. Besides, VPB's corporate bond was VND40,518 billion, accounting for 8.5% of total credit, making VPB the bank with the third highest ratio of bond to credit in the system, after Techcombank (TCB) and Tien Phong Bank (TPB). In Novaland's (NVL) financial statements, there is VND8,100 billion of bonds hold by VPB to be matured in 2023. However, VPB said it had sold part of this bond lot and the balance is currently lower than VND8,100 billion.

With the recent negative developments in the bond and real estate markets, maintaining a high loan proportion in this group poses significant risks related to VPB's asset quality in the near future.

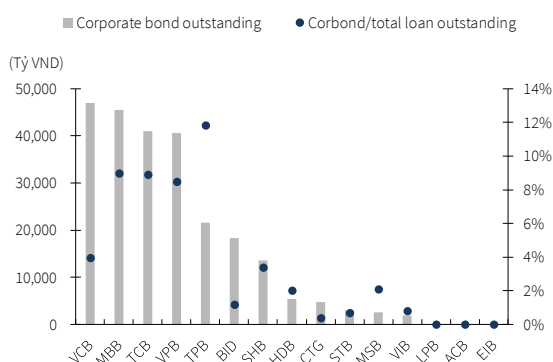
It is expected that the process of selling capital to strategic shareholders will make new progresses

On January 16, 2023, SMBC announced to divest and end its cooperation with EIB. Along with that, SMBC reaffirmed that it would still develop business activities in Vietnam market, not only through two branches in Hanoi and HCMC but also through the strategic cooperation relationship with VPB. KBSV expects VPB's process of selling capital to strategic shareholders to see new strides in 2023 thanks to SMBC. If the capital increase is successful, VPB will significantly improve the tier-1 capital to aim for high growth rates in the near future.

VPBank Securities raised its charter capital to VND15,000 billion

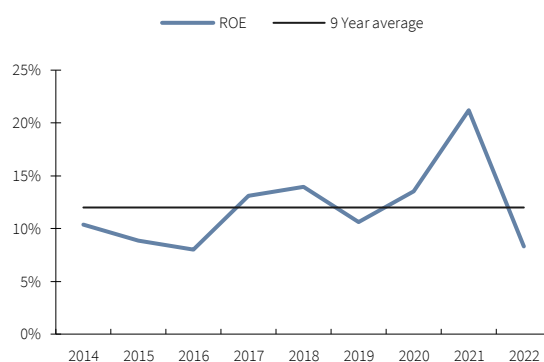
In 4Q22, VPBank Securities completed the offering of 608 million shares, thereby increasing its charter capital from VND8,920 billion to VND15,000 billion. 30% of the mobilized capital should be used to supplement capital for margin lending, 60% for proprietary trading, and 10% for other activities. After the capital raise, VPBank Securities has become the securities company with the largest charter capital in the market, surpassing SSI Securities (SSI) with VND14,911 billion. With the average ROE of the securities industry at 12%, KBSV expects VPBank Securities, after going into stable operation, to contribute an average of 10% of profit to VPB in the coming years.

Fig 11. Vietnamese banks – Corporate bond balance in 2022 (VNDbn)



Source: Banks' financial statements, KB Securities Vietnam

Fig 12. Top 20 securities companies with the largest owner's equity – Average ROE (%)



Source: Companies' financial statements, KB Securities Vietnam

Forecast & valuation

2023F business performance

We make a forecast for VPB in 2023 as follows:

- Credit growth may reach 19.0% as the economy is facing many difficulties, and the bank emphasizes risk management.
- We estimate 2023 NIM would decrease by 9bps YoY to 7.41% as the increase in average COF in 2H22 should cool down from 2Q23 and be partially offset by an increase in lending rates.
- In our prudent view, NPL should increase 67bps YoY to 6.4%, reflecting risks of real estate loans and bonds.
- Provision expense is expected to gain 18.0% YoY to VND26,515 billion.
- 2023F NPAT would gain 1.7% YoY to VND17,217 billion due to lower NIM, higher provisioning expenses, and no extra revenue from upfront fees.

Table 13. 2023–2024F performance

	2022	2023F	2024F	% Yoy 2023	%YoY 2024
Net interest income	41,021	47,121	54,201	15%	15%
Net fee income	6,438	10,382	13,579	61%	31%
Total operating income	57,797	63,624	75,029	10%	18%
Provision for credit losses	(22,461)	(26,515)	(34,373)	18%	30%
Net profit after tax	16,924	17,217	17,879	1.7%	3.8%
NIM	7.50%	7.41%	7.31%	-9bps	-10bps
Average interest rate	11.37%	12.20%	12.34%	83bps	14bps
Average deposit rate	4.43%	5.33%	5.35%	90bps	1bps
CIR	24.4%	24.5%	24.4%	8bps	-10bps
NPL	5.73%	6.40%	6.40%	67bps	0bps
Total asset	631,074	738,067	864,086	17%	17%
Owner Equity	103,517	117,222	130,907	13%	12%

Source: Vietnam Prosperity Bank, KB Securities Vietnam

BUY recommendation with the target price of VND23,000 apiece

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

(1) P/B valuation method:

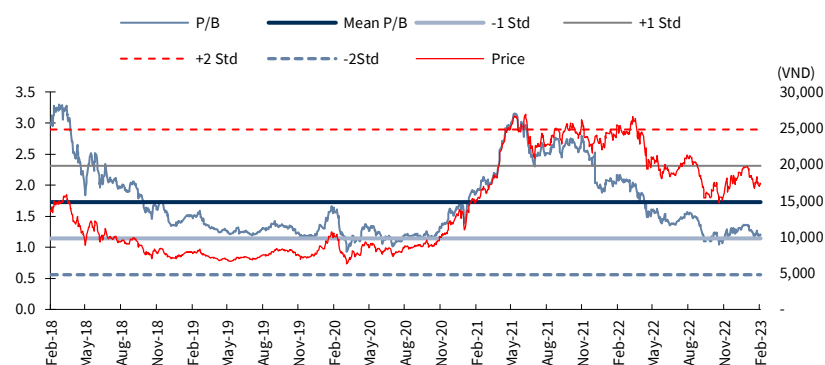
We choose a forward P/B of 1.15x, equivalent to std-1 and VPB's five-year average P/B, reflecting the general concerns of the banking group due to the negative impacts from the real estate market & bonds, and the economy in general.

(2) Residual income method:

In addition, we incorporate the residual income method to reflect systematic risks and long-term expectations.

Combining the above two valuation methods with the ratio of 50–50, we get the final fair price for VPB shares by the end of 2023 at VND23,000/share, 32.9% higher than the price on March 2, 2023.

Fig 14. VPB – P/B in 2019–2022 (x)



Source: Fiiipro, KB Securities Vietnam

Table 25. VPB share – Residual income model

VND bn	2022F	2023F	2024F
NPAT	17,217	17,879	19,501
Excessed return	-235	-1,610	-2,089
Required rate of return (r)	14.89%		
Growth (g)	5.0%		
Terminal value	37,037		
End-2022 fair price	175,798		
Target price	26,070		

Source: KB Securities Vietnam

Table 36. VPB target price – Combination of the two valuation methods (VND)

Forecast price	Forecast price	Weight	Weighted price
P/B	19,991	50%	9,995
Residual income	26,070	50%	13,034
Target price			23,000

Source: KB Securities Vietnam

VPB – 2020A–2024E financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Net interest income	32,346	34,349	41,021	47,121	54,201	Loans	286,319	345,390	424,662	515,204	618,815
Interest income	52,362	50,827	62,200	77,551	91,481	Marketable securities	493	6,971	7,793	9,715	11,827
Interest expense	(20,016)	(16,478)	(21,179)	(30,430)	(37,280)	Cash (ex. Reserves)	3,283	2,346	2,658	3,490	4,249
Fees & commissions	3,356	4,059	6,438	10,382	13,579	Interest bearing assets	393,458	506,371	587,418	684,039	799,173
Other non-interest income	2,236	2,808	10,584	5,446	6,429	Fixed assets & other assets	26,853	47,877	54,089	63,833	76,180
Total operating income	39,033	44,301	57,797	63,624	75,029	Total assets	419,027	547,409	631,074	738,067	864,086
SG&A expenses	(11,392)	(10,719)	(14,116)	(15,588)	(18,307)	Customer deposits	233,428	241,837	303,151	377,910	460,064
Pre-provisioning OP	27,641	33,583	43,681	48,036	56,722	Borrowings & call money/repos	63,172	81,400	63,762	80,629	96,016
Provision for credit losses	(14,622)	(19,219)	(22,461)	(26,515)	(34,373)	Interest bearing liabilities	353,126	446,310	509,092	632,103	762,647
Other income	3,442	5,469	13,017	7,861	9,280	Other liabilities	13,107	14,821	18,465	(11,259)	(29,467)
Other expense	(1,206)	(2,661)	(2,433)	(2,415)	(2,851)	Total liabilities	366,233	461,131	527,557	620,844	733,180
Pre-tax income	13,019	14,364	21,220	21,521	22,349	Charter capital	25,300	45,057	67,434	67,434	67,434
Income tax expense	(2,606)	(2,887)	(4,296)	(4,304)	(4,470)	Capital surplus	366	77	-	-	-
NP	10,414	11,477	16,924	17,217	17,879	Retained earnings	17,415	22,439	16,759	29,581	43,266
Minority interest profit	-	244	1,251	1,000	1,200	Capital adjustments	-	-	-	-	-
Parent NP	10,414	11,721	18,175	18,217	19,079	Total shareholders' equity	52,794	86,278	103,517	117,222	130,907

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	21.9%	16.5%	17.8%	15.6%	14.4%	EPS	4,116	2,601	2,695	2,701	2,829
ROA	2.6%	2.4%	2.9%	2.5%	2.2%	BVPS	20,867	19,149	15,351	17,383	19,413
Pre-provision ROE	46.5%	38.6%	36.8%	34.8%	36.6%	Tangible BVPS	20,610	19,003	15,227	17,255	19,288
Pre-provision ROA	5.6%	5.6%	5.9%	5.6%	5.7%	Valuations					
Net interest margin (NIM)	8.7%	7.6%	7.5%	7.4%	7.3%	PER	4.2	6.7	6.4	6.4	6.1
Efficiency						PBR	0.8	0.9	1.1	1.0	0.9
Pure Loan to deposit ratio	124.6%	146.9%	144.6%	140.0%	138.0%	Dividend yield	0.0%	4.6%	4.6%	4.6%	4.6%
Cost-income ratio	29.2%	24.2%	24.4%	24.5%	24.4%	ROE	21.9%	16.5%	17.8%	15.6%	14.4%
Growth						Capital Adequacy					
Asset growth	11.1%	30.6%	15.3%	17.0%	17.1%	CAR	12.0%	14.3%	>8%	>8%	>8%
Loan growth	13.1%	20.6%	23.0%	21.3%	20.1%	Asset Quality					
PPOP growth	15.1%	21.5%	30.1%	10.0%	18.1%	NPL ratio (substandard)	3.4%	4.6%	5.7%	6.4%	6.4%
Parent NP growth	26.1%	12.6%	55.1%	0.2%	4.7%	Coverage ratio (substandard)	45.3%	60.9%	54.4%	41.0%	39.6%
EPS growth	26.1%	-36.8%	3.6%	0.2%	4.7%	NPL ratio (precautionary)	8.6%	9.3%	11.2%	11.8%	11.8%
BVPS growth	25.1%	-8.2%	-19.8%	13.2%	11.7%	Coverage ratio (precautionary)	18.0%	29.9%	27.9%	22.2%	21.5%

Source: Vietnam Prosperity 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:	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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