KB Securities VIETNAM

KBSV RESEARCH

STOCK PITCH REPORT

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VPBank (VPB)

Showed refreshing changes

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Buy

Target price	VND25,700
Support/Entry 1	19,000-19,500
Upside 1	31%+
Support/Entry 2	VND17,000-17,600
Upside 2	46%+

Note:

Investors need to combine the assessment of market trend, the attractiveness of investment catalysts and their risk appetite to manage the stock exposure in each price zone accordingly.

Since the determination of each support/entry level is based on different time frames, we do not provide a fixed stop loss. In general, stop loss levels should be set tighter for near supports/ entries (5-7%) and wider for far supports/entries (10-15%).

Business operation

Vietnam Prosperity Joint Stock Commercial Bank (VPB) is among the largest private commercial banks in Vietnam with VND924 trillion in total assets by the end of 2024, ranking sixth in the industry. It is among the banks with a high proportion of outstanding retail loans.

Stock price relative comparison

VPB is currently trading at a P/B of around 0.99x, equivalent to its five-year average -1Std. With the prospect of improving profits and asset quality in the coming time, the bank's ROE is expected to increase, hence more attractive stock valuation.

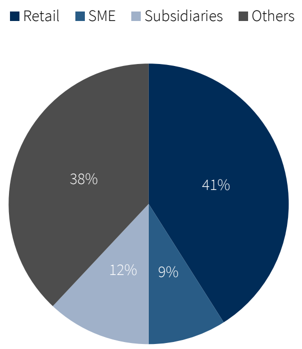
INVESTMENT CATALYSTS

The legislation of Resolution 42 is an important force to help Vietnam Prosperity Bank (VPB) improve asset quality and handle NPLs. VPB has a large amount in off-balance sheet write-offs and interest receivables (~46% of equity), which should benefit from the Resolution as it shortens processing time, thereby increasing bad debt recovery.

NIM of VPB has a positive outlook thanks to high retail lending ratio, contribution from FE Credit, and improved asset quality. CoF should be controlled with flat deposit interest rates and advantages from taking over weak credit institutions.

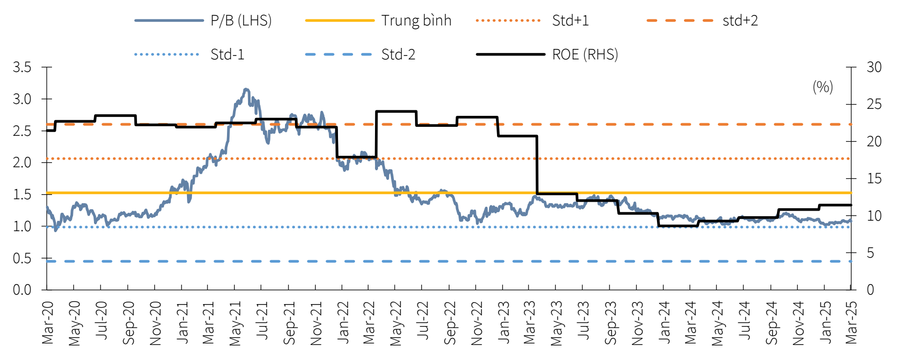
2025F profit and credit targets (20-25%) are feasible. VPB will benefit from economic recovery, credit expansion from GPBank, and increased bad debt recovery according to Resolution 42.

VPB – Revenue composition (2024)



Source: Company reports, KB Securities Vietnam

VPB – P/B and ROE (x, %)



Source: Bloomberg, KB Securities Vietnam

1. The legislation of Resolution 42 is an important force to help VPB improve asset quality and handle NPLs

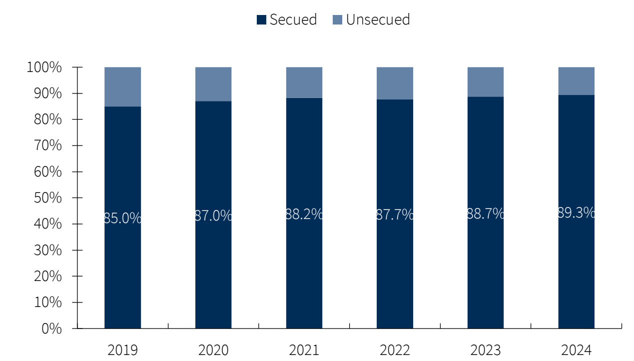
VPB is a dynamic bank with high growth potential, but asset quality remains a concern. However, there are supportive factors currently that help reassure investors as follows:

Important changes in asset quality after the legislation of Resolution 42

Resolution 42/2017/QH14 (Resolution 42) on bad debt handling has created favorable conditions for banks to handle outstanding debts. However, this Resolution has expired since the end of 2024, creating a legal gap until now. The State Bank of Vietnam (SBV) has recently proposed to **amend Resolution 42 for legislation** and is expected to submit it to the 15th National Assembly for consideration at the ninth session (May 2025). With positive results in the pilot phase (2017-2024), we expect the proposal to be passed. The important points in the revised Resolution 42 are the legislation for (1) credit institutions will have the right to seize collateral, shortening the time to handle collateral compared to the previous litigation process; (2) collateral of bad debts must secure obligations to credit institutions, avoiding seizure for other obligations, thereby protecting the rights of credit institutions; and (3) competent authorities must return collateral of bad debts to credit institutions after determining evidence and not affect the handling of the case or administrative violations.

According to the financial statements of VPB parent bank, the total write-offs by the end of 2024 was VND60,160 billion (+40% YoY), accounting for 43% of equity and 7% of total assets of the parent bank. This off-balance sheet item at VPB is relatively large compared to other banks in the same group (Techcombank - TCB, Military Bank - MBB, and Asia Commercial Bank - ACB) due to past bad debt problems and the increased handling of bad debt in the past two years with a capital buffer. Therefore, when Resolution 42 is officially legislated, VPB will gain many benefits as this Resolution helps the bank quickly handle outstanding bad debts in a much shorter time while cutting costs, thereby raising income from bad debt recovery. Although the scale of handling will depend on the subjective will of the bank, with the bank's current off-balance sheet debt, we estimate that the bad debt recovery will not be small.

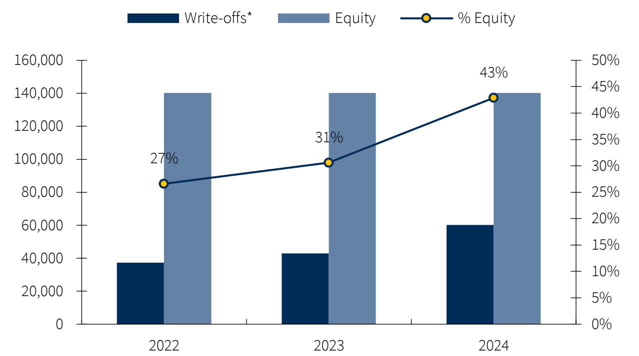
Fig 1. VPB – Credit portfolio (%)



Source: Vietnam Prosperity Bank (parent bank), KB Securities Vietnam

* *Note: 90% of credit at VPB is secured loans (with collateral)*

Fig 2. VPB – Write-offs vs owner's equity (VNDbn, %)



Source: Vietnam Prosperity Bank (parent bank), KB Securities Vietnam

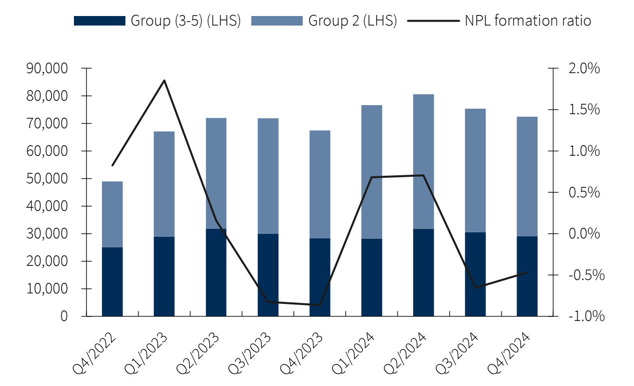
* *Note: Write-offs (100% provisioned debts are taken off balance sheet for bank monitoring) expanded to a large proportion in owner's equity.*

On-balance sheet bad debt expected to change positively thanks to economic recovery prospects

In addition, the quality of on-balance sheet loans has shown positive signs of improvement. The NPL ratio fell from 5.02% in 2023 to 4.2% in 2024 thanks to (1) improved asset quality at both the parent bank and especially FE Credit (with NPL dropping 15% from 19% in 2023); (2) bad debt handling with capital buffer (over VND26 trillion in 2024); and (3) lower NPL formation ration since 3Q-4Q24.

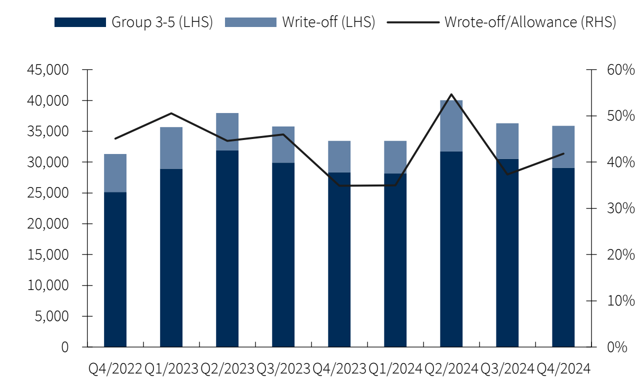
We expect VPB's on-balance sheet debt quality will continue to improve in 2025 thanks to (1) low interest rates, better economic prospects helping to improve customers' financial capacity and (2) better performance in both profit and debt quality of FE Credit after its restructuring.

Fig 3. VPB – NPL & NPL formation (VNDbn, %)



Source: Vietnam Prosperity Bank (consolidated), KB Securities Vietnam

Fig 4. VPB – NPL handling (VNDbn, %)



Source: Vietnam Prosperity Bank (consolidated), KB Securities Vietnam

2. NIM of VPB has a positive outlook thanks to high retail lending ratio, contribution from FE Credit, and improved asset quality

We are optimistic about VPB's NIM recovery prospects while the banking industry is still under a large pressure from sagging NIM mainly due to the Government's orientation to maintain low lending rates. The motivation for VPB to maintain a high NIM includes:

(1) VPB will leverage the advantages of retail lending (a segment with higher earnings yield).

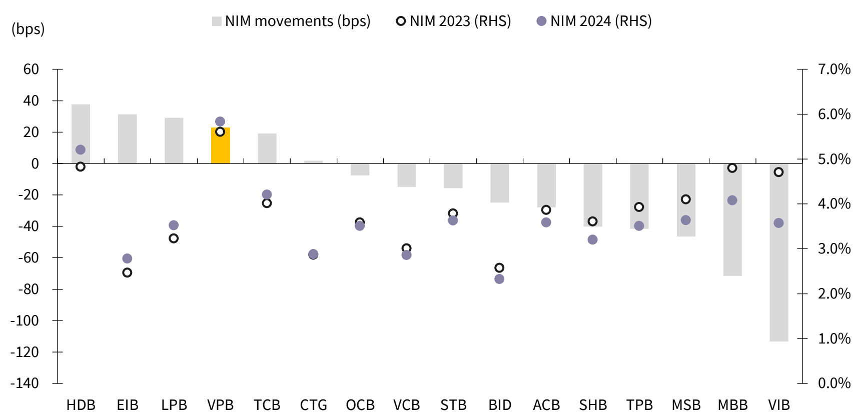
(2) FE Credit has brought positive results after a comprehensive restructuring process, starting to contribute profits to the parent bank with a NIM climbing from 17% in 2023 to 20.3% in 2024.

(3) Improved asset quality as mentioned above will cushion NIM growth from negative impacts.

(4) CoF is projected to remain stable in 2025 because (i) deposit interest rates are unlikely to see a sharp gain; and (ii) VPB should be supported with low-interest refinancing loans from the SBV after taking over GPBank.

In 2024, VPB is one of the few banks to record improved NIM. The bank's consolidated NIM increased by 22bps to 5.8%, with FE Credit seeing a significant improvement in GPM.

Fig 5. Vietnam – NIM among banks (%)



Source: Vietnam Banks, KB Securities Vietnam

3. 2025F profit and credit targets (20-25%) are feasible

VPB targets a high profit growth of 20-25% in 2025, equivalent to VND24,000 billion. The optimistic objective is supported by both favorable economic environment and VPB's own strengths:

(1) Credit growth should be driven by the recovery of the economy, especially in the real estate and personal consumption sectors. VPB is boosting lending in these sectors, with the proportion of real estate loans and loans for individual customers and SMEs respectively touching 26% and 56%.

(2) The acquisition of GPBank will give VPB additional advantages in (i) expanding the potential customer base and (ii) higher credit limits than the entire industry.

(3) Income from bad debt settlement is expected to surge with the legislation of Resolution 42, thereby contributing to total TOI of the bank.

RISKS

The legislation of Resolution 42 may last longer than expected

The legislation of Resolution 42 has not yet been officially approved, so the legal gap may last longer than expected, causing bad debt settlement to not meet the expectations mentioned. However, we believe that 2025 is an important milestone to bring the country into a new era with a growth target of 8% this year. Handling bad debt and collateral is one of the top priority tasks to remove bottlenecks, paving the wave for banks to clear bad debts and helping businesses and individuals access credit at appropriate costs to develop business and production. In our opinion, the legislation of Resolution 42 will bring many positive effects, encouraging the State to achieve the goals set for 2025.

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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