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**VPB's 3Q22 EBT reached VND4,514 billion, up 67.3% YoY**

Vietnam Prosperity Bank's (VPB) 3Q22 lending activities grew strongly from low comparative levels in 3Q21 with NII reaching VND10,385 billion (+38.9% YoY, -0.8% QoQ) and EBT hitting VND4,514 billion (+8.1% QoQ, +67.3% YoY). 9M22 EBT rose 69% YoY to VND19,837 billion.

**It is likely that VPB will not use up the allocated credit room**

Although the credit limit for 2022 is 26.2% – the highest in the system, KBSV supposes VPB would cautiously disburse funds in 4Q to promote risk management while the negative factors related to macro, bond, and real estate market along with high interest rates may increase the risk of bad debt.

**LDR is expected to improve in 4Q22 thanks to a sharp increase in deposit rates**

VPB's LDR is quite high (116%) as customer deposits decreased by 6.2% QoQ in 3Q due to the influence of the interest rate hike. In KBSV's opinion, LDR will be improved in 4Q22 when VPB's deposit rates surge to attract depositors.

**BUY recommendation with a target price of VND22,600/share**

Based on valuation results, business outlook and possible risk factors, we recommend BUY for VPB stocks. The target price is VND22,600/share, 38.7% higher than the price on November 11, 2022.

**Buy** maintain

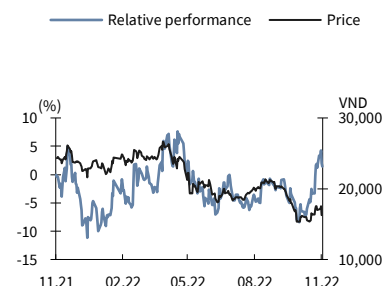
<b>Target price</b>	<b>VND22,600</b>
Upside/Downside	38.7%
Current price (Nov 11, 2022)	VND16,300
Consensus target price	VND29,298
Market cap (VNDbn)	109,425

<b>Trading data</b>	
Free float	88.7
3M avg trading value (VNDbn/USDmn)	332/14.1
Foreign ownership	17.63
Major shareholder	Composite Capital Master Fund LP (5.0%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	2	-22	-19	-33
<b>Relative</b>	11	3	4	1

#### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	32,346	34,349	40,263	45,443
Pre-provision operating profit (VNDbn)	27,641	33,583	44,485	44,207
NPAT of the parent bank (VNDbn)	10,414	11,808	19,309	16,889
EPS (VND)	4,116	2,621	2,863	2,504
EPS growth (%)	26%	-36%	9%	-13%
PER (x)	7.1	11.2	10.3	11.7
Book value per share (VND)	20,867	19,187	16,056	18,827
PBR (x)	1.41	1.53	1.83	1.56
ROE (x)	21.9%	16.7%	20.6%	15.9%



Source: Bloomberg, KB Securities Vietnam

## Business operation

### 3Q22 EBT reached VND4,514 billion, up 67.3% YoY

VPB's 3Q22 lending activities grew strongly from low comparative levels in 3Q21 with NII reaching VND10,385 billion (+38.9% YoY, -0.8% QoQ). The parent bank's NII increased 44.3% YoY, and the subsidiary FEcredit's NII increased 31.2% YoY. Non-interest income (NOII) was VND3,088 billion (+16.2% YoY, +9.5% QoQ). Provision expense hit a high of VND5,423 billion (-2.9% QoQ, +8.9% YoY), raising 3Q22 EBT to VND 4,514 billion (+8.1% QoQ, +67.3% YoY). 9M22 EBT rose 69% YoY to VND19,837 billion.

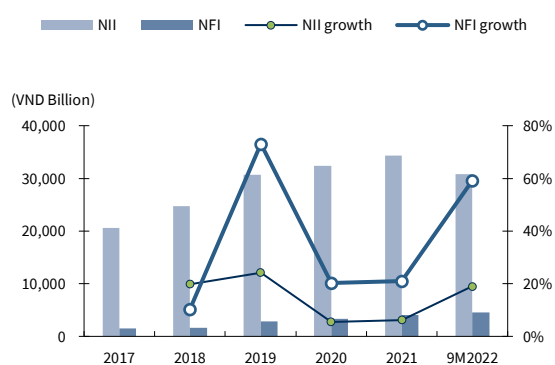
### 3Q credit growth was 15.1% YTD

3Q credit balance rose 26.7% YoY or 15.1% YTD, of which credit growth of parent bank and FEcredit hit 15.1% YTD and 15.2% YTD, respectively. The growth was not really impressive in the context of strong capital growth mainly because VPB's credit room was only raised by 0.7% in the first time of extension. The ratio of corporate bonds to total outstanding loans dropped 108bps QoQ to 8.70%.

### 3Q NIM rose 19bps QoQ after VPB boosted lending to RB & SME sector

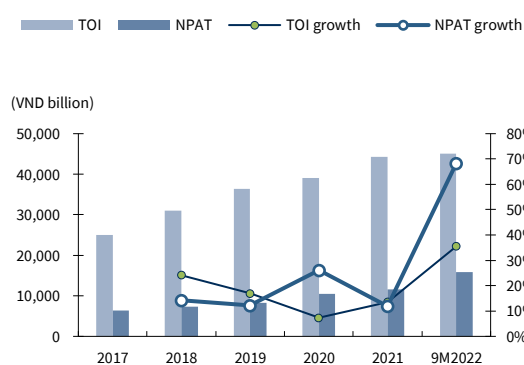
3Q22 NIM reached 7.77% (+19bps QoQ, +44bps YoY), of which the parent bank NIM reached 5.54% (+17bps QoQ, +21bps YoY) thanks to an increase in average earnings yield of 49bps QoQ after the bank promoted lending to RB & SMEs (+22.9% YTD) while the average costs of fund increased by 35bps QoQ. Meanwhile, FE's NIM failed to extend the upward momentum from 2Q and fell to 21.75% (-44bps QoQ).

Fig 1. VPB - NII & NOII growth in 2017-2022 (% YoY)



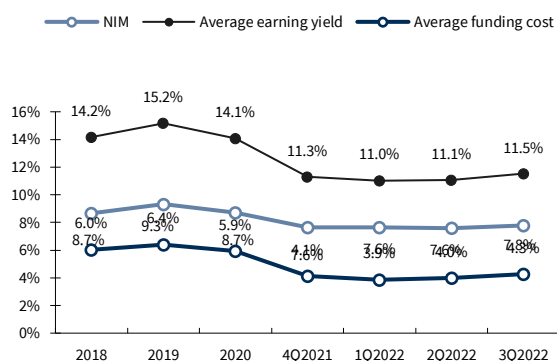
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 2. VPB - TOI & NPAT growth in 2017-2022 (% YoY)



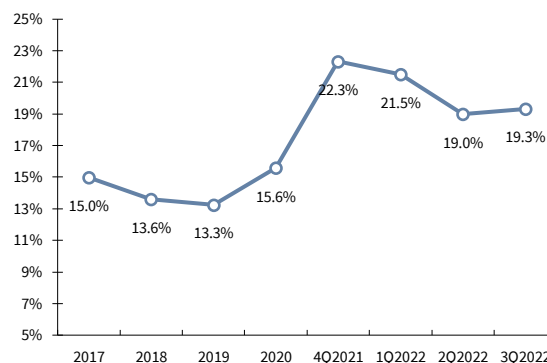
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 3. VPB – Interest rate & NIM in 2018–2022 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 4. VPB – CASA in 2017–2022 (%)

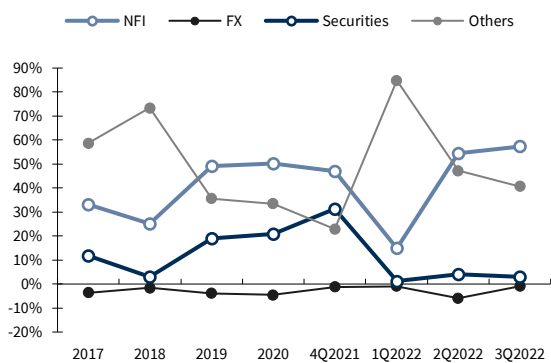


Source: Vietnam Prosperity Bank, KB Securities Vietnam

**3Q NOI reached VND3,088 billion, up 16.2% YoY**

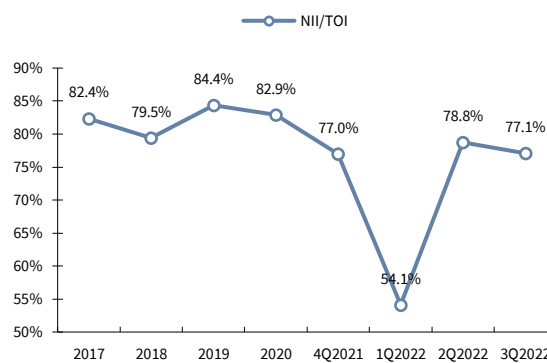
NOII grew further to hit VND1,769 billion (+123.8% QoQ, +15.0% YoY), of which interest from settlement services rose 104.3% YoY, and premium interest gained 88.8% YoY. Securities trading brought in VND81 billion in profit after VPB sold all government bonds and switched to holding corporate bonds, while securities investment recorded a profit of VND11 billion. Besides, other income remained at a high level thanks to accelerating debt settlement, helping NOI increase 16.2% YoY to VND3,088 billion.

Fig 5. VPB – Interest rate & NIM in 2018–2022 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

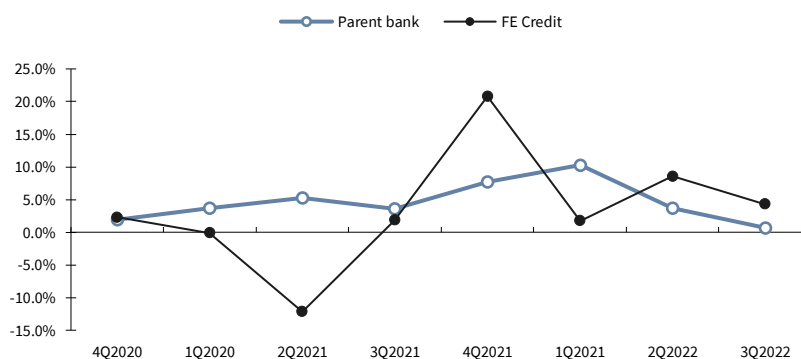
Fig 6. VPB – CASA in 2017–2022 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Credit growth of the parent bank reached 0.7% QoQ, slightly lower than the quarter as VPB hit the credit ceiling granted by the State Bank from the beginning of the year. FE Credit's credit growth also slowed down after a good recovery in 2Q.

Fig 7. VPB – Credit growth in 2020–2022 (% QoQ)

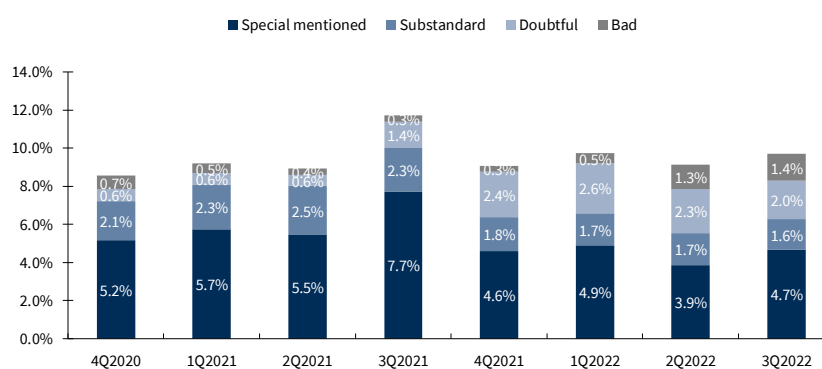


Source: Vietnam Prosperity Bank, KB Securities Vietnam

## NPL ratio reached 5.25%, up 42 bps QoQ, and bad debt rose 74bps QoQ

3Q22 NPL ratio went down 24bps QoQ to 5.02% with substandard and doubtful debts dropping 8bps QoQ and 30bps QoQ respectively. The asset quality of the parent bank improved, reflected in the decrease of NPL in the parent bank (down 19bps QoQ to 2.65%) and FECredit's (down 67bps QoQ to 14.34%, according to KBSV estimates). VPB made a provision of VND5,423 billion (-2.9% QoQ, +8.9% YoY) in 3Q, of which VND1,831 billion (-17.6% QoQ, -5.7% YoY) was from the parent bank and VND3,592 billion (+6.8% QoQ, +18.3% YoY) from FECredit. Consolidated NPL ratio rose 3bps QoQ to 62.0%. Restructured debt in 3Q was valued at VND6.1 trillion (-39% QoQ), equivalent to 1.5% of total outstanding loans). Customers holding 86.6% of the total restructured debt have maintained normal payments after being supported.

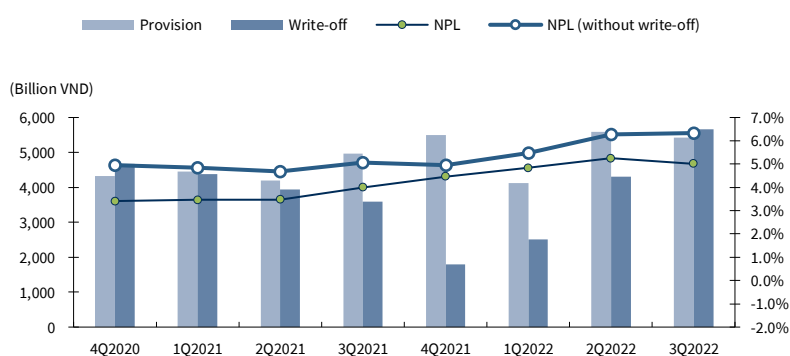
Fig 8. VPB – NPL in 2020–2022 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 9. VPB – Provision in 2020–2022 (VNDbn)

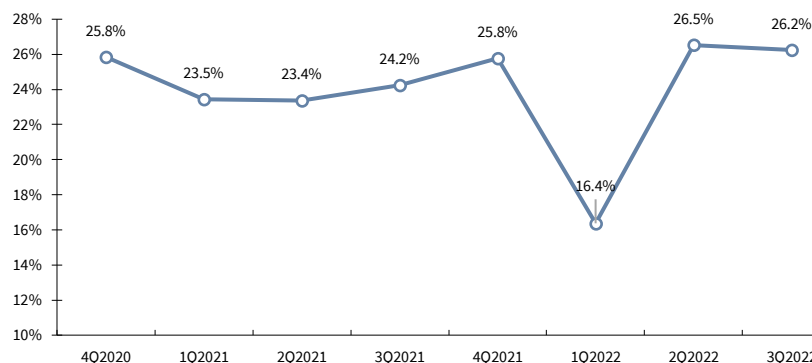
NPL dropped mainly thanks to VPB's push to deal with bad debts with a provision of VND5,665 billion – the most drastic quarter of bad debt settlement of VPB



Source: Vietnam Prosperity Bank, KB Securities Vietnam

CIR rebounds to a high after VPB no longer recorded extra profits in TOI like in 1Q22

Fig 10. VPB – CIR in 2020–2022



Source: Vietnam Prosperity Bank, KB Securities Vietnam

**It is likely that VPB will keep credit growth lower than the limit**

At the beginning of October 2022, the State Bank of Vietnam (SBV) officially adjusted the credit limit for a number of banks. VPB's credit limit was raised by 11.5% to 26.2% for the whole year of 2022, which is the highest in the system. However, KBSV supposes VPB would cautiously disburse funds in 4Q to promote risk management while the negative factors related to macro, bond, and real estate market along with high interest rates may increase the risk of bad debt.

**Issuance plan to strategic shareholders may not be completed in 2022**

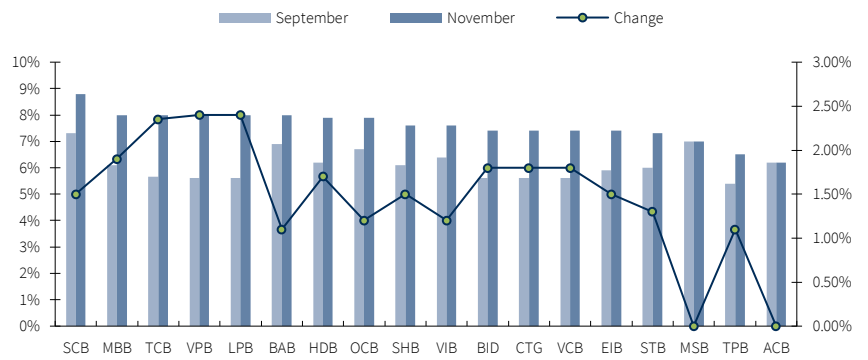
VPB said the negotiation on share issuance for strategic shareholders is processing efficiently, but it is unlikely to be completed in the short term. According to KBSV, the possibility of completing this deal in the short – medium term is not high. (1) From the perspective of VPB, the bank's capital is quite redundant after selling FeCredit with a CAR of 15%, so it does not need to mobilize capital urgently and promote growth given high credit risk. Besides, VPB's stock price is experiencing negative movements, and it would not be reasonable to make a transaction at this time. (2) From the perspective of the buyer, the current time is also unreasonable as risks from the macro and the rising bond and real estate markets may affect the bank's asset quality.

**LDR should improve in 4Q thanks to a sharp increase in deposit rates**

LDR according to Circular 22 of the parent bank VPB as of 3Q reached 73.7%, much lower than the maximum of 85%. However, VPB's customer deposit LDR is quite high, reaching 116% when VPB's customer deposits decreased by 6.2% QoQ in 3Q22 due to the interest rate hike. In KBSV's opinion, LDR will be improved in 4Q22 when VPB's deposit rates surge to attract depositors.

In November, VPB raised 12-month deposit rates to 8.0% - 8.5%, making VPB one of the banks with the biggest change in deposit rates from September to November 2022

Fig 11. Vietnam – Lowest 12-month deposit rates at different banks



Source: Vietnambiz

## Forecast & valuation

### 2022F performance

We make our forecast for VPB in 2022 as follows:

- We lower our credit growth forecast from 23.0% to 19.5%, reflecting our expectation that VPB will strengthen risk management during a period of negative economic developments.
- We estimate 2022 NIM would decrease by 8bps YoY to 7.56% as average costs of fund after SBV's policy adjustments and average earnings yield may both increase thanks to increasing credit of individuals & SMEs in the last quarter of the year.
- NPL may reach 4.9%, up 0.4% YoY after recording restructured debts.
- Provision expense is expected to increase by 2.2% YoY to VND19,412 billion.
- We expect the parent bank's NPAT in 2022 to reach VND19,309 billion, up 73.1% YoY but down 10.4% compared to the old forecast.

### 2023F performance

For 2023, we project NPAT of parent bank at VND16,889 billion, down 12.5% YoY, based on:

- Credit growth may hit 19.0% as the bank focuses on risk management to avoid adverse impacts from the economy difficulties.
- VPN would no longer recorded a sudden revenue of VND5,000 billion from upfront fee.
- NIM should fall 10bps YoY as the bank has to raise deposit rates to control inflation and stabilize exchange rate.
- Provision expense should rise 7.4% to VND20,846 billion

**Table 1. VPB – 2022–2023F performance**

	2021	2022F	2023F	% YoY 2022	%YoY 2023
Net interest income	34,349	40,263	45,443	17.2%	12.9%
Net fee income	4,059	5,836	7,267	43.8%	24.5%
Total operating income	44,301	57,299	58,167	29.3%	1.5%
Provision for credit losses	(19,002)	(19,412)	(20,846)	2.2%	7.4%
Net profit after tax	11,808	19,309	16,889	63.5%	-12.5%
NIM	7.63%	7.55%	7.45%	-8bps	-10bps
Average interest rate	11.30%	11.67%	12.45%	37bps	78bps
Average deposit rate	4.12%	4.62%	5.28%	50bps	66bps
CIR	24.2%	22.4%	24.0%	-183bps	164bps
NPL	4.47%	4.90%	4.80%	43bps	-10bps
Total asset	547,626	598,783	709,239	9%	18%
Owner Equity	86,451	108,271	126,959	25%	17%

Source: KB Securities Vietnam

## Valuation – BUY recommendation, price VND22,600/share

We used P/B and residual income methods to find a fair price for VPB shares.

(1) P/B valuation method:

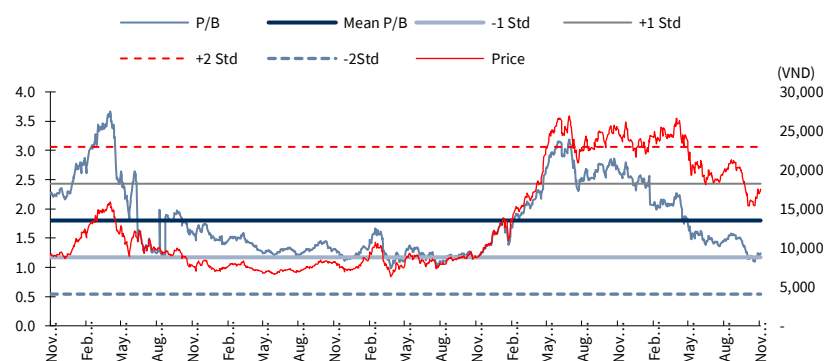
We choose a forward P/B of 1.2x, equivalent to VPB's Std-1 of average five-year P/B, reflecting the general concerns of banks about negative impacts from the real estate, bond market, and the economy.

(2) Residual income method:

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

Combining the above two valuation methods with the ratio of 50-50, we find the price for VPB shares by the end of 2023 at VND22,600 /share, 38.7% higher than the price on November 11, 2022.

Fig 12. VPB – Share price & P/B in 2019–2022



Source: Fiiipro, KB Securities Vietnam

Table 2. VPB – Share price according to DCF method

VND bn	2022F	2023F	2024F
NPAT	19,309	16,889	19,561
Excessed return	8,243	3,030	3,310
Required rate of return (r)	12.80%		
Growth (g)	5.0%		
Terminal value	39,505		
End-2022 fair price	164,917		
<b>Target price</b>	<b>24,456</b>		

Source: KB Securities Vietnam

Table 3. VPB – Share target price according to two valuation methods

Forecast price	Forecast price	Weight	Weighted price
P/B	20,716	50%	10,358
Residual income	24,456	50%	12,228
<b>Target price</b>			<b>22,600</b>

Source: KB Securities Vietnam



## VPB – 2019A–2023E financials

ENG Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2019	2020	2021	2022F	2023F	2018	2019	2020E	2021F	2022F	
Net interest income	30,670	32,346	34,349	40,263	45,443	Loans	253,100	286,319	345,607	413,089	498,418
Interest income	49,875	52,362	50,827	62,225	75,969	Marketable securities	1,567	493	6,971	4,215	5,525
Interest expense	(19,204)	(20,016)	(16,478)	(21,962)	(30,526)	Cash (ex. Reserves)	2,459	3,283	2,346	3,567	4,676
Fees & commissions	2,792	3,356	4,059	5,836	7,267	Interest earning assets	351,188	393,458	506,371	559,959	660,181
Other non-interest income	2,020	2,236	2,808	10,115	4,271	Fixed assets & other assets	27,797	26,853	47,877	47,806	56,900
Total operating income	36,356	39,033	44,301	57,299	58,167	Total assets	377,204	419,027	547,626	598,783	709,239
SG&A expenses	(12,344)	(11,392)	(10,719)	(12,813)	(13,960)	Customer deposits	213,950	233,428	241,837	300,238	393,542
Pre-provisioning OP	24,012	27,641	33,583	44,485	44,207	Borrowings & call money/repos	57,937	63,172	81,400	81,138	96,853
Provision for credit losses	(13,688)	(14,622)	(19,002)	(19,412)	(20,846)	Interest bearing liabilities	322,482	352,939	446,206	504,354	651,605
Other income	2,682	3,442	5,469	12,967	7,118	Other liabilities	12,220	13,107	14,865	(13,975)	(69,486)
Other expense	(663)	(1,206)	(2,661)	(2,853)	(2,847)	Total liabilities	334,994	366,233	461,175	490,513	582,279
Pre-tax income	10,324	13,019	14,580	25,073	23,361	Charter capital	25,300	25,300	45,057	67,434	67,434
Income tax expense	(2,064)	(2,606)	(2,930)	(5,015)	(4,672)	Capital surplus	693	366	77	77	77
NP	8,260	10,414	11,651	20,059	18,689	Retained earnings	11,806	17,415	22,500	19,431	36,320
Minority interest profit	-	-	157	(750)	(1,800)	Capital adjustments	-	-	-	-	-
Parent NP	8,260	10,414	11,808	19,309	16,889	Total shareholders' equity	42,210	52,794	86,451	108,271	126,959

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F	2018	2019	2020E	2021F	2022F	
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	21.5%	21.9%	16.7%	20.6%	15.9%	EPS	3,265	4,116	2,621	2,863	2,504
ROA	2.4%	2.6%	2.4%	3.5%	2.9%	BVPS	16,684	20,867	19,187	16,056	18,827
Pre-provision ROE	49.9%	46.5%	38.6%	36.6%	30.1%	Tangible BVPS	16,455	20,610	19,042	15,923	18,665
Pre-provision ROA	5.5%	5.6%	5.6%	6.2%	5.4%	<b>Valuations</b>					
Net interest margin (NIM)	9.3%	8.7%	7.6%	7.6%	7.4%	PER	9.0	7.1	11.2	10.3	11.7
<b>Efficiency</b>						PBR	18	14	15	18	16
Pure Loan to deposit ratio	120.2%	124.6%	146.9%	142.0%	130.0%	Dividend yield	0.0%	0.0%	1.7%	2.0%	1.8%
Cost-income ratio	34.0%	29.2%	24.2%	22.4%	24.0%	ROE	21.5%	21.9%	16.7%	20.6%	15.9%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	16.7%	11.1%	30.7%	9.3%	18.4%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	15.9%	13.1%	20.7%	19.5%	20.7%	<b>Asset Quality</b>					
PPOP growth	17.4%	15.1%	21.5%	32.5%	-0.6%	NPL ratio (substandard)	3.4%	3.4%	4.5%	4.9%	4.8%
Parent NP growth	12.3%	26.1%	13.4%	63.5%	-12.5%	Coverage ratio (substandard)	46.4%	45.3%	62.3%	63.4%	53.7%
EPS growth	12.3%	26.1%	-36.3%	9.3%	-12.5%	NPL ratio (precautionary)	8.2%	8.6%	9.1%	9.5%	9.4%
BVPS growth	21.5%	25.1%	-8.1%	-16.3%	17.3%	Coverage ratio (precautionary)	19.4%	18.0%	30.7%	32.7%	27.4%

Source: Vietnam Prosperity Bank, KB Securities Vietnam

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## Investment ratings & definitions

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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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