

23 Apr 2020

## Bank for Foreign Trade of Vietnam JSC (VCB)

12M rating **HOLD**

### Ready for the worst

- 1Q20 top line maintained healthy trajectory
- Aggressive in making credit provision weighed the bottom line
- Comfortable stock price for the leader

### Facts: Sales keep going

VCB 1Q20 results saw minor impact from the COVID-19 pandemic. Revenue peaked at VND13tn. Key components including net interest income, net fee income and gain on forex trading maintained positive moves. Net profit eroded by 11% yoy to VND4.2tn on the swell of credit provision and OPEX with CIR of 40% vs. 37% in 1Q19.

### Pros & cons: Late payment increases but is fully provisioned

1Q20 debt classification followed usual norm rather than delaying with Circular 01/2020. Overdue ratio inched up to 1.5% from 1.1% at end-2019. However, these were sheltered by excessive credit loss reserve, reaching VND14.5tn or a LLC of 235%.

Specific allowance made for customer loans in 1Q20 was VND3.9tn, equaling to that for the entire 2019. However, VCB reported a credit provision expenses of just VND2.2tn in 1Q20, up 9.2% QoQ given VND2tn of reversed allowance for interbank loans. We believe provisioning for interbank loans is unnecessary and VCB will reverse the remaining VND1tn in 2Q20.

Credit growth achieved 2.8% ytd in 1Q20 on mini customer deposit growth. Deposit from the State Treasury was down VND60tn against 4Q19. However, this was balanced by reduce in net interbank lending and its reserve at the SBV.

### Action: A comfortable stock price for the leader

We believe its low loan to deposit ratio may allow the bank to achieve credit growth of 10% in 2020 amid gentle deposit pace. Extraordinary income from exclusive bancassurance deal with FWD may offset the enlargement in credit provision cost. As such 2020 net profit is forecast at VND21tn, up 11% yoy. We give a HOLD on VCB with a TP of VND72,500.

### Stock data

VNIndex (23 April, pt)	774
Stock price (23 April, VND)	69,200
Market cap (USD mn)	256,654
Shares outstanding (mn)	3,709
52-Week high/low (VND)	94,500/57,200
6M avg. daily turnover (USD mn)	77
Free float / Foreign ownership (%)	25.2/23.7
Major shareholders (%)	
SBV	74.8
Mizuho Bank, Ltd	15.0
GIC	2.6

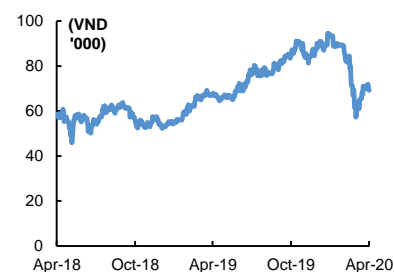
### Valuation

	2019A	2020F	2021F
PB (x)	3.2	2.7	2.3
PE (x)	16.1	15.3	12.8
ROA (%)	1.6	1.6	1.8
ROE (%)	25.9	23.3	23.1
DY (%)	0.7	1.4	1.4
P/PPE (x)	8.6	7.8	6.5
BPS (VND,adj)	21,763	25,808	30,207
EPS (VND,adj)	4,287	4,536	5,388

### Performance

	1M	6M	12M
Absolute (%)	0.2	(0.2)	0.0
Relative to VNIndex (%p)	0.0	0.0	0.2

### Stock price



Source: Bloomberg

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**Table 1. Earnings trend and outlook**

(VND bn, %, %p)

	2019				2020F	2019	2020F	1Q20F	
	1Q	2Q	3Q	4Q	1QF			QoQ	YoY Consensus
Loans to customers and corporate bonds	680,486	702,920	715,610	741,931	762,729	741,931	816,124	2.8	12.1
% growth (ytd)	6.4	9.9	11.8	16.0	2.8	16.0	10.0	(13.2)	44.1
Loans to customers	673,022	695,438	708,096	734,707	754,505	734,707	808,178	2.7	12.1
NPL (3-5 group)	6,952	7,134	7,625	5,804	6,191	5,804	6,384	6.7	(10.9)
NPL ratio (%)	1.0	1.0	1.1	0.8	0.8	0.8	0.8	0.0	79.4
NPL (2-5 group)	10,864	11,012	11,824	8,364	11,250	8,364	9,201	34.5	3.6
NPL ratio (%)	1.6	1.6	1.7	1.1	1.5	1.1	1.1	0.4	92.4
Loan loss coverage (%)	169.2	176.8	185.2	179.5	235.0	179.5	176.6	55.5	138.9
VAMC	-	-	-	-	-	-	-	-	-
Deposit from customers and bond	859,626	892,569	923,505	949,835	955,420	949,835	1,038,243	0.6	11.1
Deposit from customers	838,277	871,229	902,184	928,451	934,048	928,451	1,014,869	0.6	11.4
% growth (ytd)	4.5	8.6	12.5	15.8	0.6	15.8	9.3	(15.2)	13.3
CASA (%)	28.0	27.5	27.1	28.3	26.2	28.3	28.5	(2.2)	93.5
<b>Total assets</b>	<b>1,073,332</b>	<b>1,122,655</b>	<b>1,157,490</b>	<b>1,222,719</b>	<b>1,144,270</b>	<b>1,222,719</b>	<b>1,297,563</b>	(6.4)	6.6
<b>Total equity</b>	<b>72,919</b>	<b>76,321</b>	<b>81,312</b>	<b>80,800</b>	<b>84,984</b>	<b>80,800</b>	<b>95,788</b>	5.2	16.5
Total operating income	11,768	11,303	11,995	10,667	12,285	45,730	50,423	15.2	4.4
Net interest income	8,499	8,580	8,859	8,640	9,034	34,577	38,067	4.6	6.3
NIM (%)	3.70	3.42	3.18	3.13	3.13	3.12	3.12	(0.0)	84.6
Non-interest income	3,269	2,724	3,135	2,028	3,251	11,153	12,357	60.3	(0.5)
Net commission income	1,998	1,775	2,186	1,728	2,235	7,685	7,329	29.3	11.9
Gains on investment securities	105	181	66	47	(23)	398	636	(148.7)	(121.7)
Other non-interest income	1,166	768	883	252	1,039	3,070	4,392	311.6	(10.9)
Provision for credit losses	1,506	1,811	1,503	1,971	2,152	6,790	7,295	9.2	42.9
Net operating revenue	10,262	9,493	10,492	8,696	10,133	38,940	43,128	16.5	(1.3)
SG&A	4,384	4,067	4,182	3,186	4,910	15,818	17,441	54.1	12.0
CIR (%)	37.3	36.0	34.9	29.9	40.0	34.6	34.6	10.1	107.3
<b>Pre-provision earnings</b>	<b>7,384</b>	<b>7,236</b>	<b>7,812</b>	<b>7,481</b>	<b>7,375</b>	<b>29,913</b>	<b>32,982</b>	(1.4)	(0.1)
EBT	5,878	5,425	6,309	5,510	5,223	23,122	25,688	(5.2)	(11.1)
Net profit	4,711	4,365	5,052	4,400	4,183	18,526	20,550	(4.9)	(11.2)
<b>Controlling-int. NP</b>	<b>4,707</b>	<b>4,361</b>	<b>5,048</b>	<b>4,397</b>	<b>4,178</b>	<b>18,511</b>	<b>20,533</b>	(5.0)	(11.2)

Source: Company data, KIS

### ■ Company overview

Vietcombank (VCB) is the fourth largest bank in terms of total assets and is the leader in forex trading and international settlement in Vietnam. It is also the most profitable bank locally and aims to become one of the 300 largest banking financial groups globally.

**Balance sheet**

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total assets	1,035,293	1,074,027	1,222,719	1,297,563	1,417,833
Gross IEAs	1,009,412	1,045,872	1,191,362	1,262,505	1,378,819
Loans and corp bonds	558,151	639,799	741,931	816,124	906,612
Household	177,778	235,884	315,782	-	-
Corporate	380,373	403,915	426,149	816,124	906,612
Dep't and loans to FIs	252,315	287,958	313,310	307,398	313,811
Dep't to SBV & G-bond	198,946	118,115	136,121	138,984	158,396
VAMC bond	-	-	-	-	-
NIEAs	34,243	39,864	45,381	49,979	54,803
Others	8,361	11,710	14,025	14,922	15,789
Total liabilities	982,825	1,011,916	1,141,919	1,201,774	1,305,730
Deposits	708,520	801,929	928,451	1,014,869	1,119,248
Debentures	18,215	21,461	21,384	23,374	25,778
Dep't and loans from FIs	66,965	76,550	73,638	77,318	81,183
Loans from Gov't & SBV	171,385	90,685	92,366	57,801	47,257
Other liabilities	17,740	21,291	26,081	28,411	32,263
Total equities	52,469	62,110	80,800	95,788	112,102
Controlling interests	52,379	62,041	80,717	95,719	112,033
Capital stock	35,978	35,978	37,089	37,089	37,089
Capital surplus	-	-	4,995	4,995	4,995
Other reserves	7,254	9,446	12,186	14,967	18,052
Retained earnings	8,715	16,139	26,055	38,278	51,507
OCI	433	479	391	390	390
Minority interest	89	69	83	69	69

**Income statement**

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total operating income	29,406	39,278	45,730	50,423	60,082
Net interest income	21,938	28,409	34,577	38,067	44,403
Interest income	46,159	55,864	67,724	72,098	81,843
Interest cost	24,221	27,455	33,147	34,031	37,440
Non-interest income	7,469	10,870	11,153	12,357	15,679
Net commission income	4,581	5,669	7,685	7,329	10,018
Gains on investment securities	788	1,967	398	636	636
Other non-interest income	2,100	3,234	3,070	4,392	5,024
Provision for credit losses	6,198	7,398	6,790	7,295	9,339
Net operating revenue	23,208	31,880	38,940	43,128	50,743
SG&A	11,866	13,611	15,818	17,441	20,782
Employee benefits	6,733	7,678	8,669	-	-
Pre-provision earnings	17,540	25,667	29,913	32,982	39,300
Earnings before tax	11,341	18,269	23,122	25,688	29,961
Tax	2,231	3,647	4,596	5,138	5,992
Tax rate (%)	20	20	20	20	20
Continuing operations profit	6,925	11,350	15,346	17,762	20,367
Reversals of written-off loans	2,185	3,272	3,180	2,789	3,602
Net profit	9,111	14,622	18,526	20,550	23,969
Net profit of controlling interest	9,091	14,606	18,511	20,533	23,949

**Key financial data**

	2017A	2018A	2019A	2020F	2021F
<b>Profitability and efficiency (%)</b>					
ROE	18.1	25.5	25.9	23.3	23.1
ROA	1.00	1.39	1.61	1.63	1.77
NIM	2.51	2.79	3.12	3.12	3.39
Asset yield	5.28	5.49	6.10	5.92	6.24
Cost of fund	2.86	2.81	3.15	2.97	3.06
Cost-income ratio	40.4	34.7	34.6	34.6	34.6
Credit cost	1.02	1.24	1.24	1.24	1.24
<b>Growth (%)</b>					
Net profit of controlling interest	32.2	60.7	26.7	10.9	16.6
Pre-provision earnings	17.3	46.3	16.5	10.3	19.2
Credit growth	17.2	14.6	16.0	10.0	11.1
Total assets	31.4	3.7	13.8	6.1	9.3
<b>Asset quality (%)</b>					
NPL ratio	1.1	1.0	0.8	0.8	0.8
NPL coverage ratio	130.7	165.4	179.5	176.6	169.9
Loan to deposit	71.3	71.2	72.7	73.3	74.1
<b>Capital adequacy (%)</b>					
CAR ratio	11.6	12.1	9.6	11.3	12.0
CET1 ratio	N/A	N/A	N/A	N/A	N/A
Tier 1 ratio	N/A	N/A	N/A	N/A	N/A

**Valuation**

	2017A	2018A	2019A	2020F	2021F
<b>Per share (VND, adj.)</b>					
BPS	14,559	17,244	21,763	25,808	30,207
EPS	2,001	3,334	4,287	4,536	5,388
DPS	800	800	500	1,000	1,000
<b>Valuation (x)</b>					
PB	4.8	4.0	3.2	2.7	2.3
PE	34.6	20.8	16.1	15.3	12.8
P/PPE	14.2	9.7	8.6	7.8	6.5
Dividend yield (%)	1.2	-	0.7	1.4	1.4
Dividend payout ratio (%)	40.0	24.0	11.7	22.0	18.6
<b>ROE analysis (%)</b>					
ROE	18.1	25.5	25.9	23.3	23.1
Leverage(x)	19.7	17.3	15.1	13.5	12.6
IEAs to total assets	96.7	96.3	96.3	96.2	96.2
Net income to IEAs	0.9	1.4	1.6	1.6	1.7
Net interest income to IEAs	2.2	2.7	2.9	3.0	3.2
Non-interest income to IEAs	0.7	1.0	0.9	1.0	1.1
Credit cost to IEAs	0.6	0.7	0.6	0.6	0.7
SG&A to IEAs	1.2	1.3	1.3	1.4	1.5

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