

27 Jul 2020

Bank for Foreign Trade of Viet Nam JSC (VCB)

12M rating **HOLD (Maintain)**

Early provisioning drives LLC to 254%

- NP was up 10% qoq and 5.7% yoy thanks to cost saving
- 2Q20 NIM edged down to 2.87%;
- Banca upfront fee to accelerate 2020 bottom line

Facts: 2Q20 NP was up 10.3% qoq

VCB reported 2Q20 controlling-interest NP at VND4.6tn, up 5.7% yoy and 10.3% qoq although its TOI decreased by 5.9% yoy and 10.6% qoq to VND8tn. The bottom line growth was driven by higher cost efficiency, including a 36.5% qoq decrease in operating expenses to VND3.1tn and a 13.8% qoq decline in provision expenses to VND1.9tn. With that, VCB made a 1H20 NP of VND8.8tn, down 3.1% yoy. The bank continues to carry early provisioning practice even though the NPL ratio was flat at 0.8% against 1Q20. The NPL coverage ratio peaked at 254% in 2Q20 on growing late payment and registration for debt rescheduling due to the COVID-19. As of June 2020, COVID-19 restructured loans reached VND11.7tn (~1.5% of loan book) on total registered loan book of VND50-60tn. The delinquency ratio rose from 1.5% in 1Q20 (~VND11.3tn) to 1.8% in 2Q20 (~VND14.2tn).

Pros & cons: one-off incomes to offset dipping NIM

NIM dipped by 29bps qoq to 2.87% in 2Q20 due to disbursement of stimulus credit packages (VND250tn, ~30% loan book) and accounting adjustment on interest income of the restructured loans. As VCB has been aggressively in lowering lending rates to supports the economy, we lower NIM by 10-20bps in the forecast period. 2020F NIM is expected at 2.96%. The bank may emphasize on retail segment to drive the compound credit growth to 10% this year from 4.9% ytd in 1H (10% yoy). Non-interest income retreated by 18% qoq to VND2.7tn as consequence of fees reduction and weak trade number in 2Q20. However, one-off upfront fees from exclusive banca agreement in 4Q20 (estimated at VND1.9tn) and return of recovery of written-off debts (VND1.5tn in 2H) may send the non-interest income to grow by 15% yoy in 2020.

Action: Reiterate Hold

Even though the economy outlook turns to be cloudy given the return of the virus in the last week of July, VCB earnings are secured by a thick credit provision buffer and huge extraordinary incomes. We reiterate Hold on VCB as a P/B forward of 2.9x is fair with its No.1 position in the industry and its 2020 outlook. For long-term horizon, a BUY opportunity may emerge if the stock drop further to below -1SD P/B level of 2.7x.

Stock data

VNIndex (27 Jul, pt)	785
Stock price (27 Jul, VND)	77,000
Market cap (USD mn)	12,319
Shares outstanding (mn)	3,709
52-Week high/low (VND)	94,500/57,200
6M avg. daily turnover (USD mn)	3.84
Free float / Foreign ownership (%)	25.2/23.7
Major shareholders (%)	
SBV	74.8
Mizuho Bank, Ltd	15.0
GIC	2.6

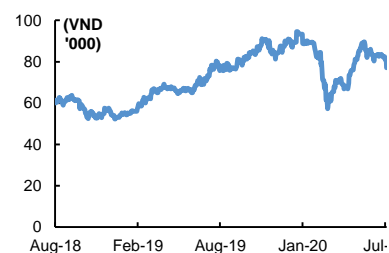
Valuation

	2019A	2020F	2021F
PB (x)	3.5	2.9	2.5
PE (x)	17.8	17.4	15.1
ROA (%)	25.9	22.0	21.3
ROE (%)	1.61	1.55	1.64
DY (%)	0.0	22.8	19.8
P/PPE (x)	9.4	8.9	7.4
BPS (VND,adj)	21,763	26,156	30,216
EPS (VND,adj)	4,287	4,385	5,050

Performance

	1M	6M	12M
Absolute (%)	(7.6)	(17.6)	(1.0)
Relative to VNIndex (%p)	(0.1)	2.6	18.3

Stock price



Source: Bloomberg

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Table 1. Earnings trend and outlook

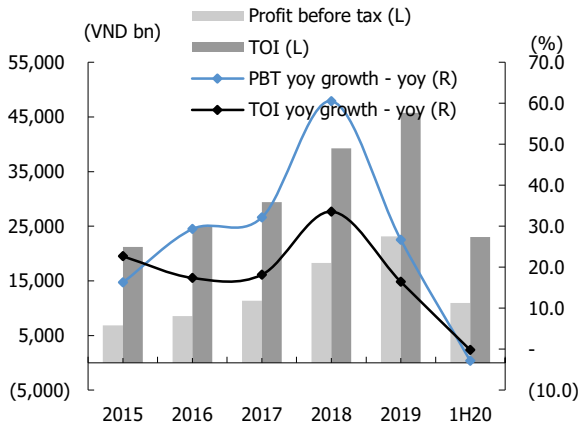
	2019				2020		2019	2020F	2Q20	
	1Q	2Q	3Q	4Q	1Q	2Q			QoQ	YoY
Loans to customers and corporate bonds	680,486	702,920	715,610	741,931	762,729	778,101	741,931	816,124	2.0	10.7
% growth (ytd)	6.4	9.9	11.8	16.0	2.8	4.9	16.0	10.0	-	(5.0)
Loans to customers	673,022	695,438	708,096	734,707	754,505	770,744	734,707	808,178	2.2	10.8
NPL (3-5 group)	6,952	7,134	7,625	5,804	6,191	6,433	5,804	8,398	3.9	(9.8)
NPL ratio (%)	1.0	1.0	1.1	0.8	0.8	0.8	0.8	1.0	0.0	(0.2)
NPL (2-5 group)	10,864	11,012	11,824	8,364	11,250	14,158	8,364	14,055	25.8	28.6
NPL ratio (%)	1.6	1.6	1.7	1.1	1.5	1.8	1.1	1.7	0.3	0.3
Loan loss coverage (%)	169.2	176.8	185.2	179.5	235.0	254.5	179.5	134.3	19.5	65.8
VAMC	0	0	0	0	0	0	0	0	-	-
Deposit from customers and bond	859,626	892,569	923,505	949,835	955,420	1,002,513	949,835	1,038,243	4.9	12.3
Deposit from customers	838,277	871,229	902,184	928,451	934,048	981,218	928,451	1,014,869	5.1	12.6
% growth (ytd)	4.5	8.6	12.5	15.8	0.6	5.7	15.8	9.3	-	(3.0)
CASA (%)	28.0	27.5	27.1	28.3	26.2	26.5	28.3	28.5	0.4	(1.0)
Total assets	1,073,332	1,122,655	1,157,490	1,222,719	1,144,270	1,185,262	1,222,719	1,298,990	3.6	5.6
Total equity	72,919	76,321	81,312	80,800	84,984	89,485	80,800	97,080	5.3	17.2
Total operating income	11,768	11,303	11,995	10,667	12,285	10,733	45,730	48,728	(12.6)	(5.0)
Net interest income	8,499	8,580	8,859	8,640	9,034	8,077	34,577	35,958	(10.6)	(5.9)
NIM (%)	3.29	3.25	3.22	3.00	3.16	2.87	3.12	2.96	(0.3)	(0.4)
Non-interest income	3,269	2,724	3,135	2,028	3,251	2,656	11,153	12,770	(18.3)	(2.5)
Net commission income	1,998	1,775	2,186	1,728	2,235	1,977	7,685	7,598	(11.5)	11.4
Gains on investment securities	105	181	66	47	-23	394	398	636	-	117.3
Other non-interest income	1,166	768	883	252	1,039	286	3,070	4,536	(72.5)	(62.8)
Provision for credit losses	1,506	1,811	1,503	1,971	2,152	1,856	6,790	7,440	(13.8)	2.5
Net operating revenue	10,262	9,493	10,492	8,696	10,133	8,877	38,940	41,288	(12.4)	(6.5)
SG&A	4,384	4,067	4,182	3,186	4,910	3,118	15,818	16,806	(36.5)	(23.3)
CIR (%)	37.3	36.0	34.9	29.9	40.0	29.1	34.6	34.5	(10.9)	(6.9)
Pre-provision earnings	7,384	7,236	7,812	7,481	7,375	7,615	29,913	31,922	3.3	5.2
EBT	5,878	5,425	6,309	5,510	5,223	5,759	23,122	24,482	10.3	6.1
Net profit	4,711	4,365	5,052	4,400	4,183	4,615	18,526	19,586	10.3	5.7
Controlling-int. NP	4,707	4,361	5,048	4,397	4,178	4,610	18,511	19,570	10.3	5.7

Source: Company data, KIS

■ Company overview

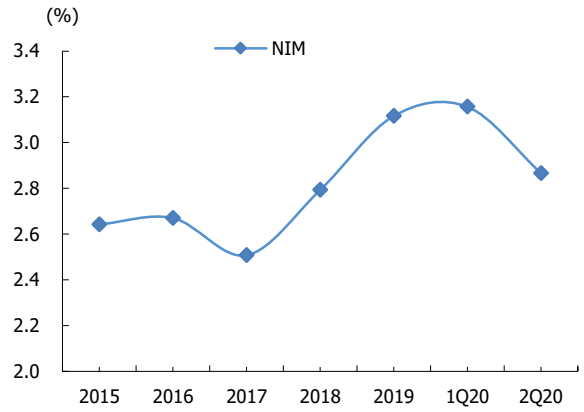
Vietcombank (VCB) is the fourth largest bank in terms of total assets and is the leader in forex trading and international settlement in Vietnam. It is also the most profitable locally and aims to become one of the 300 largest banking financial groups globally.

Figure 1. 1H20 results



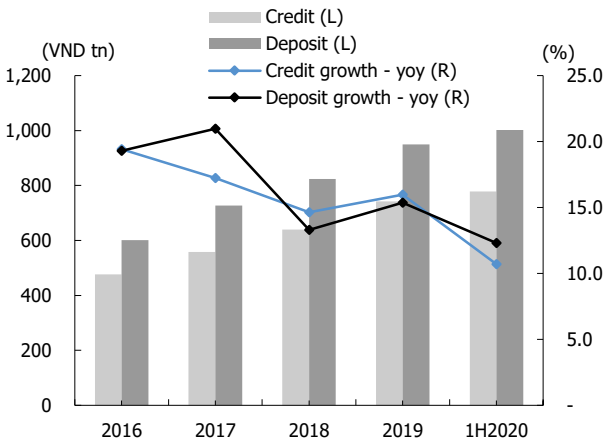
Source: Company data, KIS Vietnam

Figure 2. NIM



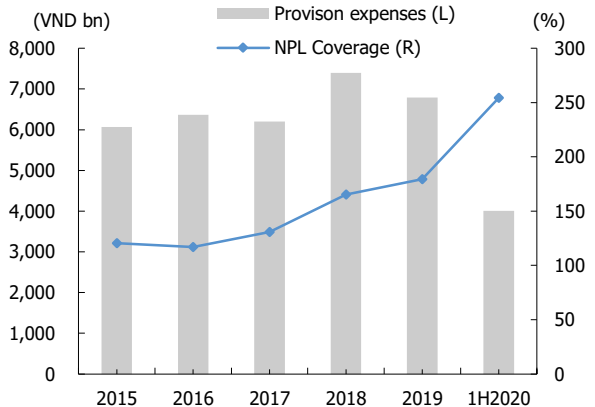
Source: Company data, KIS Vietnam

Figure 3. Credit & Deposit



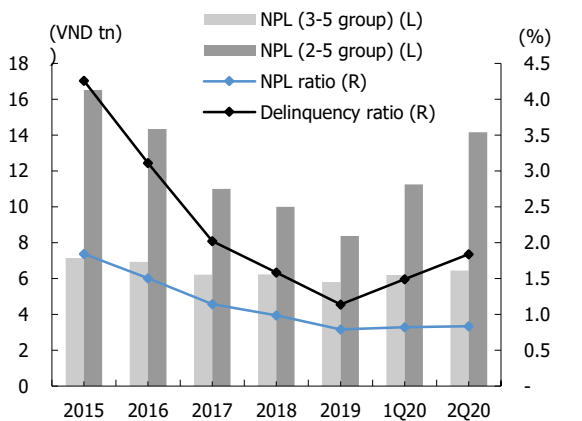
Source: Company data, KIS Vietnam

Figure 4. Provision expenses



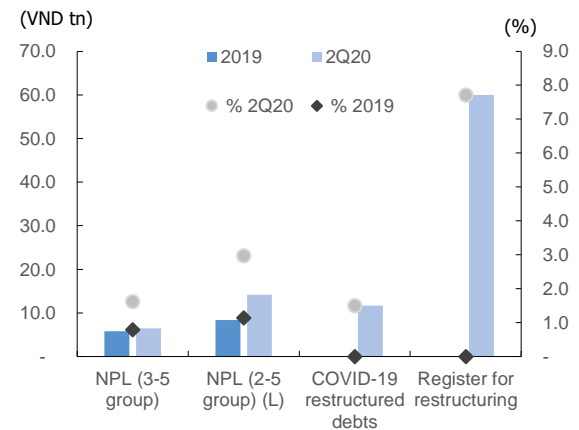
Source: Company data, KIS Vietnam

Figure 5. NPL ratios



Source: Company data, KIS Vietnam

Figure 6. NPLs & COVID-19 restructured loans



Source: Company data, KIS Vietnam

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total assets	1,035,293	1,074,027	1,222,719	1,298,990	1,418,017
Gross IEAs	1,009,412	1,045,872	1,191,362	1,261,130	1,376,160
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	306,022	311,152
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	49,786	54,662
Others	8,361	11,710	14,025	11,925	12,805
Total liabilities	982,825	1,011,916	1,141,919	1,201,911	1,305,880
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	28,548	32,412
Total equities	52,469	62,110	80,800	97,080	112,137
Controlling interests	52,379	62,041	80,717	97,011	112,068
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	18,076
Retained earnings	8,715	16,139	26,055	40,292	54,099
OCI	433	479	391	-333	-2,191
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	48,728	58,513
Net interest income	21,938	28,409	34,577	35,958	42,633
Interest income	46,159	55,864	67,724	70,485	80,619
Interest cost	24,221	27,455	33,147	34,528	37,985
Non-interest income	7,469	10,870	11,153	12,770	15,880
Net commission income	4,581	5,669	7,685	7,598	10,017
Gains on investment securities	788	1,967	398	636	636
Other non-interest income	2,100	3,234	3,070	4,536	5,226
Provision for credit losses	6,198	7,398	6,790	7,440	10,529
Net operating revenue	23,208	31,880	38,940	41,288	47,984
SG&A	11,866	13,611	15,818	16,806	20,180
Employee benefits	6,733	7,678	8,669	-	-
Pre-provision earnings	17,540	25,667	29,913	31,922	38,333
Earnings before tax	11,341	18,269	23,122	24,482	27,804
Tax	2,231	3,647	4,596	4,896	5,561
Tax rate (%)	20	20	20	20	20
Continuing operations profit	6,925	11,350	15,346	16,769	18,612
Reversals of written-off loans	2,185	3,272	3,180	2,817	3,631
Net profit	9,111	14,622	18,526	19,586	22,243
Net profit of controlling interest	9,091	14,606	18,511	19,570	22,225

Key financial data

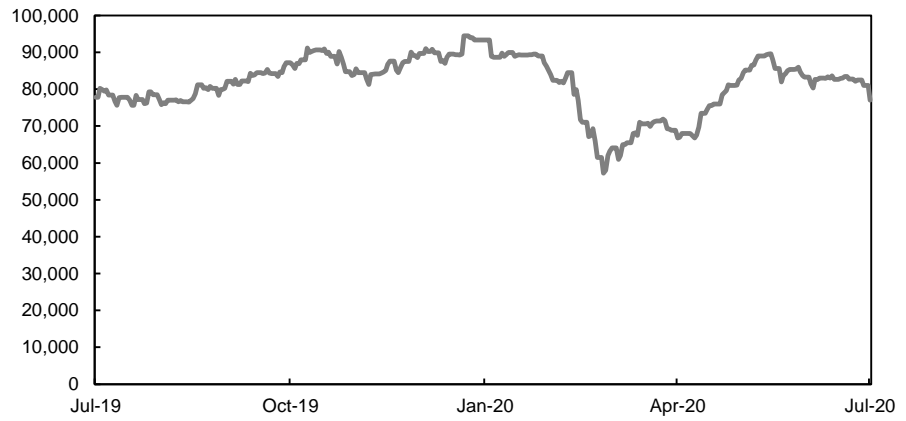
	2017A	2018A	2019A	2020F	2021F
Profitability and efficiency (%)					
ROE	18.1	25.5	25.9	22.0	21.3
ROA	1.00	1.39	1.61	1.55	1.64
NIM	2.51	2.79	3.12	2.96	3.27
Asset yield	5.28	5.49	6.10	5.80	6.18
Cost of fund	2.86	2.81	3.15	3.02	3.10
Cost-income ratio	40.4	34.7	34.6	34.5	34.5
Credit cost	1.02	1.24	0.98	0.96	1.22
Growth (%)					
Net profit of controlling interest	32.2	60.7	26.7	5.7	13.6
Pre-provision earnings	17.3	46.3	16.5	6.7	20.1
Credit growth	17.2	14.6	16.0	10.0	11.1
Total assets	31.4	3.7	13.8	6.2	9.2
Asset quality (%)					
NPL ratio	1.1	1.0	0.8	1.0	1.1
NPL coverage ratio	130.7	165.4	179.5	134.3	126.1
Loan to deposit	71.3	71.2	72.7	73.3	74.1
Capital adequacy (%)					
CAR ratio	11.6	12.1	9.6	9.9	10.4
CET1 ratio	N/A	N/A	N/A	N/A	N/A
Tier 1 ratio	0.0	0.0	8.0	8.8	9.4

Valuation

	2017A	2018A	2019A	2020F	2021F
Per share (VND, adj.)					
BPS	14,559	17,244	21,763	26,156	30,216
EPS	2,001	3,334	4,287	4,385	5,050
DPS	800	800	0	1,000	1,000
Valuation (x)					
PB	5.2	4.4	3.5	2.9	2.5
PE	38.1	22.9	17.8	17.4	15.1
P/PPE	15.6	10.7	9.4	8.9	7.4
Dividend yield (%)	1.0	0.0	0.0	1.3	1.3
Dividend payout ratio (%)	40.0	24.0	0.0	22.8	19.8
ROE analysis (%)					
ROE	18.1	25.5	25.9	22.0	21.3
Leverage(x)	19.7	17.3	15.1	13.4	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	1.6
Net interest income to IEAs	2.2	2.7	2.9	2.9	3.1
Non-interest income to IEAs	0.7	1.0	0.9	1.0	1.2
Credit cost to IEAs	0.6	0.7	0.6	0.6	0.8
SG&A to IEAs	1.2	1.3	1.3	1.3	1.5

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Bank for Foreign Trade of Viet Nam JSC (VCB)		HOLD		-	-



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