

25 Oct 2020

## Bank for Foreign Trade of Viet Nam JSC (VCB)

12M rating **HOLD (Maintain)**

### Keep its conservativeness

- OPEX upsets 3Q20 NP.
- Rich credit buffer with NPL coverage ratio at 215%.
- Strong 4Q20 results are foreseen.

#### Facts: OPEX upsets 3Q20 NP

VCB reported 3Q20 controlling-interest NP at VND4tn, down 20.9% yoy and 4.5% qoq. OPEX, which rose by 46.9% yoy (+9.5% qoq) to VND4.6tn, is a main dragger for the destructive 3Q20 profit. Credit provision expense was in line with our expectation at VND1.9tn and TOI was VND11.6tn, a down 3.4% yoy but up 7.9% qoq thanks to slight improvements in lending margin and non-interest incomes vs. 2Q20. As OPEX budgeting is not carried quarterly but annually we believe VCB may be able to manage CIR at ~ 34.5% for whole 2020.

#### Pros & cons: Rich credit buffer for next coming quarters

VCB has been more conservative than other banks regarding to provisioning and credit expansion. As of Sep 2020, VCB made a credit growth of 1.6% qoq and 6.5% ytd while maintained NPL coverage ratio as high as 215%. Delinquency ratio trimmed by 30bps qoq to 1.5% since VND3.6tn of special mentioned loans moved to non-performing loan categories. While the written-off loans are worth just VND1.4tn, its NPL ratio rose by 17bps qoq to 1.0% in 3Q20.

Total outstanding of COVID-19 restructured loans declined slightly to VND10tn as of Sep from VND11.8tn as of June. VCB revealed that majority of restructured loans may expire in late 2020 and 1H21, therefore NPLs may rise during that time. However, thanks to its rich credit buffer and enormous writing-off as usual (~VND4.5tn) in 4Q20, we project NPL ratio to inch down to 0.9%.

NIM was 3.04% in 3Q20, an increase of 17% bps vs. 2Q20. We expect 4Q20 NIM to rally to 3.46% given inverse impacts from 1) new stimulus credit packages for SMEs and retail clients announced in Oct 2020, and 2) termination and repayment of restructured COVID-19 debts. Besides, the new stimulus packages also help to accelerate credit growth to 10% ytd in 2020.

#### Action: Reiterate Hold

We reiterate Hold on VCB. Strong 4Q20 NP growth, which is forecast at 45% yoy and 60% qoq due to huge one-off income from allocation of bancassurance upfront fee has been in market's expectation.

#### Stock data

VNIndex (Oct 23, pt)	961
Stock price (Oct 23, VND)	87,500
Market cap (USD mn)	14,002
Shares outstanding (mn)	3,709
52-Week high/low (VND)	94,500/57,200
6M avg. daily turnover (USD mn)	3.69
Free float / Foreign ownership (%)	25.2/23.6
Major shareholders (%)	
SBV	74.8
Mizuho Bank, Ltd	15.0
GIC	2.6

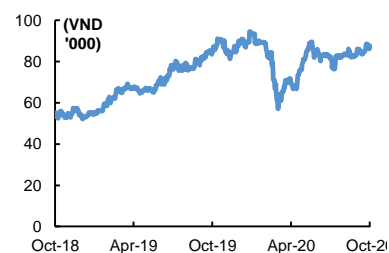
#### Valuation

	2019A	2020F	2021F
PB (x)	4.0	3.4	2.9
PE (x)	20.4	20.5	17.1
ROA (%)	1.6	1.5	1.7
ROE (%)	25.9	21.6	21.5
DY (%)	0.0	1.1	1.1
P/PPPE (x)	10.8	10.0	8.6
BPS (VND,adj)	21,763	26,045	30,179
EPS (VND,adj)	4,287	4,274	5,124

#### Performance

	1M	6M	12M
Absolute (%)	2.5	26.4	3.5
Relative to VNIndex (%p)	-3.1	0.9	4.3

#### Stock price



Source: Bloomberg

#### Yen Tran

yen.tt@kisvn.vn

Table 1. Earnings trend and outlook

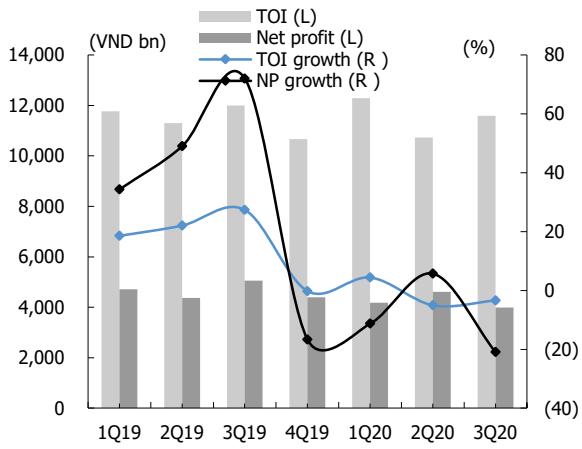
	(VND bn, %, %p)											
	2019				2020			2019	2020F	3Q20		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q20			QoQ	YoY	
Loans to customers and corporate bonds	680,486	702,920	715,610	741,931	762,729	778,101	790,404	741,931	816,124	1.6	10.5	
% growth (ytd)	6.4	9.9	11.8	16.0	2.8	4.9	6.5	16.0	10.0	-	(5.3)	
Loans to customers	673,022	695,438	708,096	734,707	754,505	770,744	783,757	734,707	808,178	1.7	10.7	
NPL (3-5 group)	6,952	7,134	7,625	5,804	6,191	6,433	7,885	5,804	7,445	22.6	3.4	
NPL ratio (%)	1.0	1.0	1.1	0.8	0.8	0.8	1.0	0.8	0.9	0.2	(0.1)	
NPL (2-5 group)	10,864	11,012	11,824	8,364	11,250	14,158	12,041	8,364	13,102	(15.0)	1.8	
NPL ratio (%)	1.6	1.6	1.7	1.1	1.5	1.8	1.5	1.1	1.6	(0.3)	(0.1)	
Loan loss coverage (%)	169.2	176.8	185.2	179.5	235.0	254.5	215.1	179.5	202.1	(39.4)	29.9	
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	1,002,754	949,835	1,038,243	0.0	8.6	
Deposit from customers	838,277	871,229	902,184	928,451	934,048	981,218	981,492	928,451	1,014,869	0.0	8.8	
% growth (ytd)	4.5	8.6	12.5	15.8	0.6	5.7	5.7	15.8	9.3	-	(6.8)	
CASA (%)	28.0	27.5	27.1	28.3	26.2	26.5	28.0	28.3	28.5	1.4	0.8	
<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>1,185,262</b>	<b>1,188,572</b>	<b>1,222,719</b>	<b>1,298,579</b>	<b>0.3</b>	<b>2.7</b>	
<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>89,485</b>	<b>93,576</b>	<b>80,800</b>	<b>96,668</b>	<b>4.6</b>	<b>15.1</b>	
Total operating income	11,768	11,303	11,995	10,667	12,285	10,733	11,586	45,730	49,485	7.9	-3.4	
Net interest income	8,499	8,580	8,859	8,640	9,034	8,077	8,723	34,577	36,343	8.0	-1.5	
NIM (%)	3.29	3.25	3.22	3.00	3.16	2.87	3.04	3.12	2.98	0.17	(0.18)	
Non-interest income	3,269	2,724	3,135	2,028	3,251	2,656	2,863	11,153	13,142	7.8	-8.7	
Net commission income	1,998	1,775	2,186	1,728	2,235	1,977	2,291	7,685	7,969	15.9	4.8	
Gains on investment securities	105	181	66	47	-23	394	32	398	636	(91.8)	50.9	
Other non-interest income	1,166	768	883	252	1,039	286	540	3,070	4,536	88.8	38.9	
Provision for credit losses	1,506	1,811	1,503	1,971	2,152	1,856	2,025	6,790	8,450	9.1	34.7	
Net operating revenue	10,262	9,493	10,492	8,696	10,133	8,877	9,562	38,940	41,035	7.7	-8.9	
SG&A	4,384	4,067	4,182	3,186	4,910	3,118	4,579	15,818	17,067	46.9	9.5	
CIR (%)	37.3	36.0	34.9	29.9	40.0	29.1	39.5	34.6	34.5	10.5	4.6	
<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>7,615</b>	<b>7,008</b>	<b>29,913</b>	<b>32,418</b>	<b>(8.0)</b>	<b>-10.3</b>	
EBT	5,878	5,425	6,309	5,510	5,223	5,759	4,983	23,122	23,968	(13.5)	-21.0	
Net profit	4,711	4,365	5,052	4,400	4,183	4,615	3,996	18,526	19,175	(13.4)	-20.9	
<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>4,610</b>	<b>3,991</b>	<b>18,511</b>	<b>19,159</b>	<b>(13.4)</b>	<b>-20.9</b>	

Source: Company data, KIS

### ■ Company overview

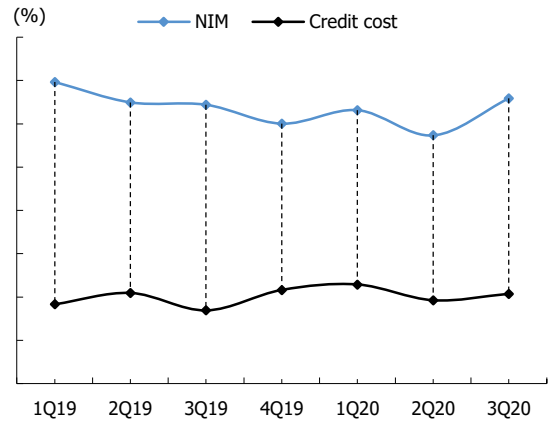
Vietcombank (VCB) is the fourth largest bank in terms of total assets and is the leader in forex trading and international settlement in Vietnam. It is also the most profitable locally and aims to become one of the 300 largest banking financial groups globally.

**Figure 1. 9M20 results**



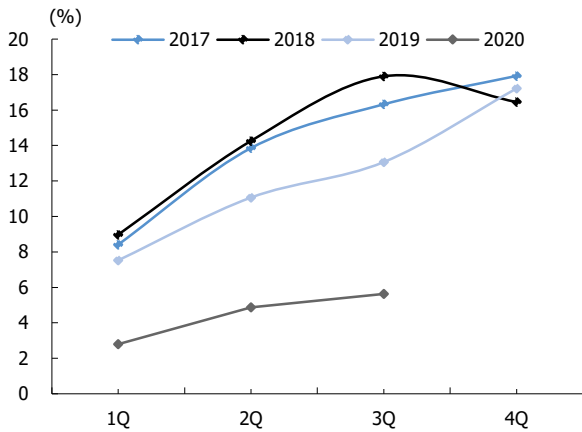
Source: Company data, KIS Vietnam

**Figure 2. Annualized NIM & credit cost**



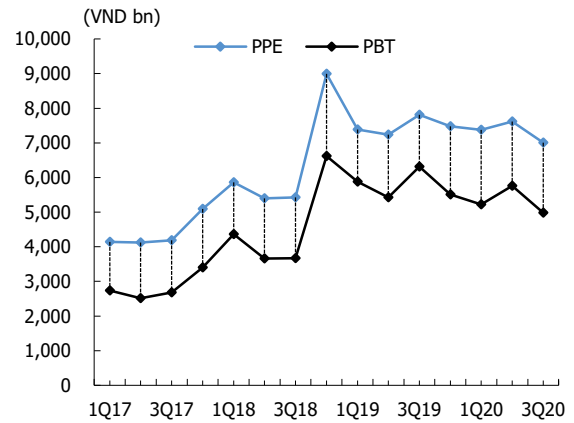
Source: Company data, KIS Vietnam

**Figure 3. Quarterly YTD credit growth**



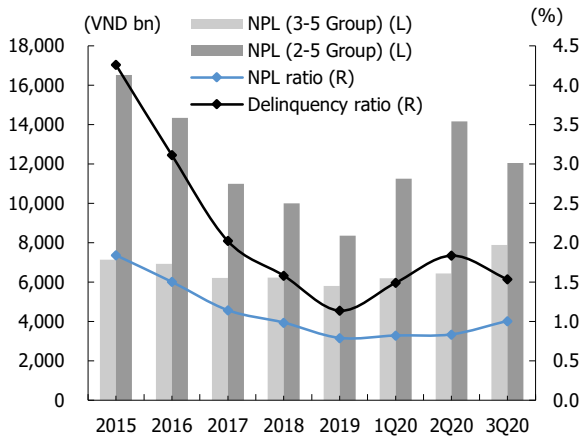
Source: Company data, KIS Vietnam

**Figure 4. PPE and PBT**



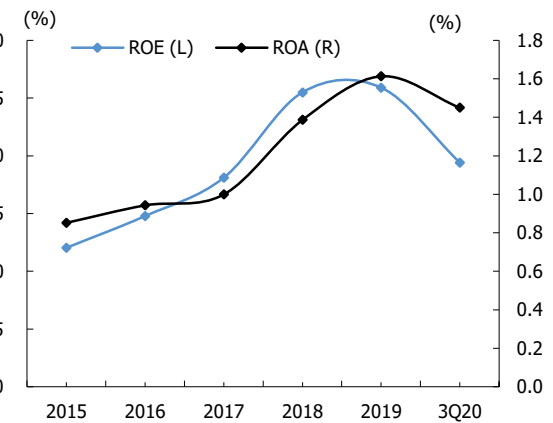
Source: Company data, KIS Vietnam

**Figure 5. NPL ratios**



Source: Company data, KIS Vietnam

**Figure 6. T12M profitability**



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	1,298,579	1,417,880
Gross IEAs	1,009,412	1,045,872	1,191,362	1,265,444	1,382,445
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	310,337	317,437
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	49,832	54,662
Others	8,361	11,710	14,025	16,697	19,226
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	96,668	112,000
Controlling interests	52,379	62,041	80,717	96,599	111,931
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	17,846
Retained earnings	8,715	16,139	26,055	39,158	51,611
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	49,485	57,355
Net interest income	21,938	28,409	34,577	36,343	42,631
Interest income	46,159	55,864	67,724	70,871	80,617
Interest cost	24,221	27,455	33,147	34,528	37,985
Non-interest income	7,469	10,870	11,153	13,142	14,724
Net commission income	4,581	5,669	7,685	7,969	10,017
Gains on investment securities	788	1,967	398	636	636
Other non-interest income	2,100	3,234	3,070	4,536	4,070
Provision for credit losses	6,198	7,398	6,790	8,450	9,519
Net operating revenue	23,208	31,880	38,940	41,035	47,836
SG&A	11,866	13,611	15,818	17,067	19,781
Employee benefits	6,733	7,678	8,669	-	-
Pre-provision earnings	17,540	25,667	29,913	32,418	37,574
Earnings before tax	11,341	18,269	23,122	23,968	28,055
Tax	2,231	3,647	4,596	4,794	5,611
Tax rate (%)	20	20	20	20	20
Continuing operations profit	6,925	11,350	15,346	16,386	20,120
Reversals of written-off loans	2,185	3,272	3,180	2,789	2,324
Net profit	9,111	14,622	18,526	19,175	22,444
Net profit of controlling interest	9,091	14,606	18,511	19,159	22,426

**Key financial data**

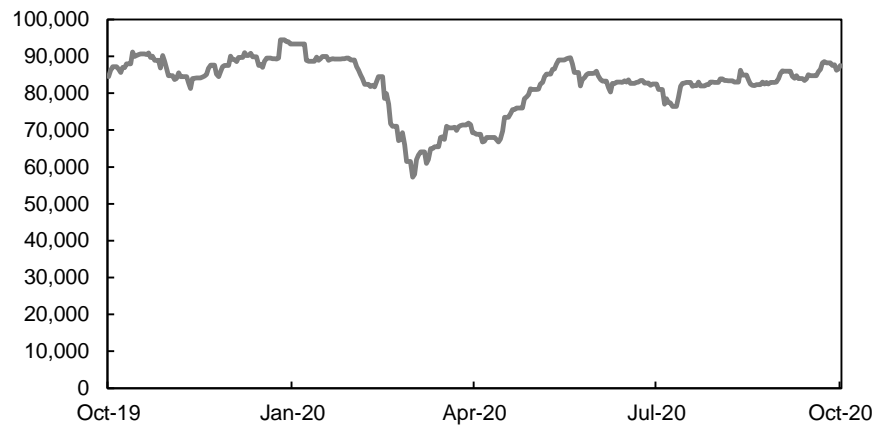
	2017A	2018A	2019A	2020F	2021F
<b>Profitability and efficiency (%)</b>					
ROE	18.1	25.5	25.9	21.6	21.5
ROA	1.00	1.39	1.61	1.52	1.65
NIM	2.51	2.79	3.12	2.98	3.26
Asset yield	5.28	5.49	6.10	5.82	6.16
Cost of fund	2.86	2.81	3.15	3.02	3.10
Cost-income ratio	40.4	34.7	34.6	34.5	34.5
Credit cost	1.02	1.24	0.98	1.08	1.11
<b>Growth (%)</b>					
Net profit of controlling interest	32.2	60.7	26.7	3.5	17.1
Pre-provision earnings	17.3	46.3	16.5	8.4	15.9
Credit growth	17.2	14.6	16.0	10.0	11.1
Total assets	31.4	3.7	13.8	6.2	9.2
<b>Asset quality (%)</b>					
NPL ratio	1.1	1.0	0.8	0.9	1.1
NPL coverage ratio	130.7	165.4	179.5	202.1	185.8
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	9.8	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	9.3

**Valuation**

	2017A	2018A	2019A	2020F	2021F
<b>Per share (VND, adj.)</b>					
BPS	14,559	17,244	21,763	26,045	30,179
EPS	2,001	3,334	4,287	4,274	5,124
DPS	800	800	0	1,000	1,000
<b>Valuation (x)</b>					
PB	6.0	5.1	4.0	3.4	2.9
PE	43.7	26.2	20.4	20.5	17.1
P/PPE	17.9	12.3	10.8	10.0	8.6
Dividend yield (%)	0.9	0.0	0.0	1.1	1.1
Dividend payout ratio (%)	40.0	24.0	0.0	23.4	19.5
<b>ROE analysis (%)</b>					
ROE	18.1	25.5	25.9	21.6	21.5
Leverage(x)	19.7	17.3	15.1	13.4	12.7
IEAs to total assets	96.7	96.3	96.3	96.2	96.2
Net income to IEAs	0.9	1.4	1.6	1.5	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	1.1
Credit cost to IEAs	0.6	0.7	0.6	0.7	0.7
SG&A to IEAs	1.2	1.3	1.3	1.3	1.4

**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		-	-



■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
  - Hold: Expected total return will be between -5% and 15%
  - Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 25 Oct 2020.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 25 Oct 2020.

KIS Vietnam Securities Corp. has not issued CW with underlying stocks of Bank for Foreign Trade of Viet Nam JSC (VCB) and is not the liquidity provider.

Prepared by: Yen Tran

## Global Disclaimer

### ■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

### ■ Country-specific disclaimer

**United States:** This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

**United Kingdom:** This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

**Hong Kong:** This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

**Singapore:** This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2020 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..