

9 Dec 2020

# Vietnam Prosperity JSC Bank (VPB)

## Potential upside from FE Credit IPO

### PBT reaches VND10tn in 10M20

VPB 3Q20 NP was VND2.2tn, down 1.4% yoy and 24% qoq, including VND1.6tn (+36% yoy, -4.7% qoq) from parent bank and VND631bn (-43% yoy and 47% qoq) from FE Credit. Both parent bank and FE Credit raised credit provision by 27% and 53% qoq and increased bad debt write-off by 29% and 19% qoq due to rises of NPL formation. VPB 9M20 PAT reached VND7.5tn, up 31% yoy.

Besides, VPB revealed to achieve a PBT of VND10tn in 10M20, completing 101% of its 2020 earnings guidance in the recent IR material. With that, the bank's BOM reiterates to surpass the target by 10-15%. However, the most noticeable point which has recently fueled VPB's market price is that news related to sales of FE Credit. In Nov 2020 VPB's BOM expects to ink with strategic partner and IPO FE Credit in 3Q21 at PB of at least 3x.

### Restructured loans is still a concern

Total outstanding of COVID-19 restructured loan inched down to VND27.8tn as of Sep 2020 (~10.3% loan book) from VND28tn in 2Q20-end (~10.4% loan book). Of which, the parent bank saw an increase in outstanding of restructured loans (+13-17% qoq) from whose sales and retail segment while those at FE Credit decreased by 7% qoq. These could be reason for higher provisioning growth at FE vs. parent bank in the quarter. We believe VPB to continue making use of supportive policies for enlarging its balance sheet and profitability.

### The virus once again overwhelms FE Credit IPO

Late last year, the COVID-19 outbreak tripped FE Credit IPO progress and lowered VPB's market price from the peak of VND28,800/share. Once again, the virus spread reoccurs in Vietnam in late Nov 2020 and may threat the negotiation between VPBank, FE Credit and potential buyer. Considering good news related to COVID-19 vaccines and uncertainty of virus spread, in this update we include two cases depending on success of FE Credit divestment.

12M rating **BUY (Upgrade)**

12M TP **37,033** from N/A

Up/Downside **+30.6%** (incl 0% cash dividend)

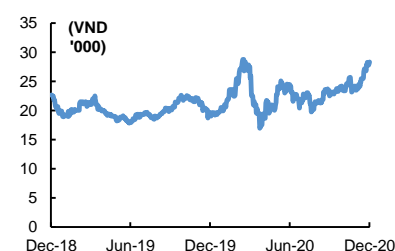
### Stock Data

VNIndex (Dec 08, pt)	1,029
Stock price (Dec 08, VND)	28,350
Market cap (USD mn)	2,988
Shares outstanding (mn)	2,438
52-Week high/low (VND)	28,800/16,950
6M avg. daily turnover (USD mn)	5.23
Free float / Foreign ownership (%)	73.3/23.4
Major shareholders (%)	
Mr. Ngo Chi Dung (Chairman) & affiliates	15.1
Mr. Lo Bang Giang & affiliates	7.6
Mr. Bui Hai Quan & affiliates	6.7
Composite Capital Master Fund LP	5.0

### Performance

	1M	6M	12M
Absolute (%)	20.6	16.0	44.6
Relative to VNIndex (%p)	10.8	0.2	35.8

### Stock price trend



Source: Bloomberg

Yr to	TOI	PPE	NP	EPS	% chg.	BPS	PE	PB	ROA	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND)	(x)	(x)	(%)	(%)	(%)
2017A	24,889	16,131	6,441	2,534	26.1	11,684	11.2	2.4	2.5	27.5	0.0
2018A	31,086	20,452	7,356	2,994	18.1	14,145	9.5	2.0	2.4	22.8	0.0
2019A	36,356	24,022	8,268	3,392	13.3	17,315	8.4	1.6	2.4	21.5	0.0
2020F	38,281	26,402	8,945	3,619	6.7	19,461	7.8	1.5	2.2	19.8	0.0
2021F	43,917	30,284	10,295	4,042	11.7	22,740	7.0	1.2	2.2	19.4	0.0

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

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## Upgrade to BUY following inclusion of FE Credit IPO

Since the third virus outbreak in Vietnam is contained promptly and we believe that all sides have been included COVID-19 variable into modeling, our base case assumption is that VPB is able to divest 49% stake of FE Credit at 3.00x PB in 2021. We also assume VPB to liquidate all 75mn of treasury stocks at historical price (~VND29,200/shr) given effectiveness of Securities Law 2019. We reevaluate VPB at a TP of VND37,033 and upgrade to BUY.

On the other hand, the bear case implies that VPB can't reach final agreement on FE Credit divestment. This may disappoint investors once again and depress TP to VND31,378/shr.

**Table 1. Valuation**

(VND bn)

Scenarios	2021F
<b>Bear case (no FE Credit divestment)</b>	
Consolidated BVPS (VND/shr)	22,738
Fair PB (x)	1.38
<b>Target price (VND/shr)</b>	<b>31,378</b>
<b>Base case (sales of 49% FE Credit stake at 3.00x PB in 2021)</b>	
Equity value of parent bank (1.38x PB)	69,272
Gain from FE Credit divestment (49% stake at 3.00x PB)	11,893
Equity value of FE Credit (51% stake at 1.85x PB)	13,155
<b>Target price (VND/shr)</b>	<b>37,033</b>

**Table 2. Change in TP based on FE Credit valuation**

(VND)

FE Credit valuation	2.00x PB	2.50x PB	3.00x PB	3.50x PB	4.00x PB
Target price	35,083	36,058	37,033	38,008	38,983

### ■ Company overview

VPB is one of top leading private banks in Vietnam. The parent bank follows traditional banking business model and have more than 3mn retail customers, 150,000 household ones and 80,000 enterprises. The subsidiary FE Credit focuses on consumer finance segment in Vietnam, having dominant market share of 55%.

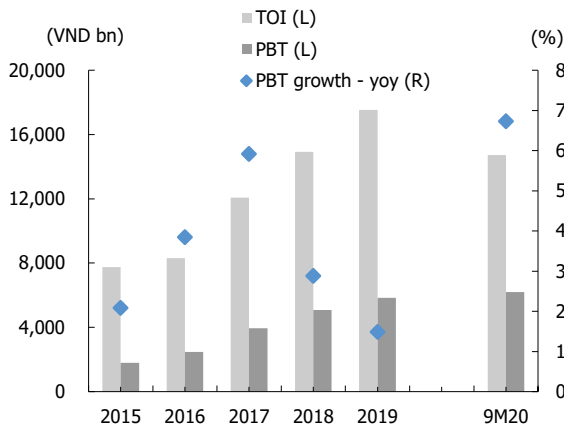
Table 3. Earnings trend and outlook

(VND bn)

	2019				2020			2019	2020F	3Q20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q			QoQ	YoY
Loans to customers and corporate bonds	246,383	256,379	264,762	271,407	292,794	297,970	316,197	271,407	320,574	6.1	19.4
% growth (ytd)	6.8	11.1	14.7	17.6	7.9	9.8	16.5	17.6	18.1	6.7	1.8
Loans to customers	231,458	247,633	254,187	257,184	263,748	270,139	278,025	257,184	292,128	2.9	9.4
Corporate bond	14,925	8,746	10,575	14,223	29,046	27,831	38,171	14,223	28,445	37.2	260.9
NPL (3-5 group)	8,376	8,491	8,901	8,798	7,984	8,614	10,147	8,798	11,501	17.8	14.0
NPL ratio (% , %p)	3.6	3.4	3.5	3.4	3.0	3.2	3.6	3.4	3.9	0.5	0.1
NPL (2-5 group)	21,865	21,004	21,836	21,036	21,700	25,383	24,912	21,036	27,335	(1.9)	14.1
NPL ratio (% , %p)	9.4	8.5	8.6	8.2	8.2	9.4	9.0	8.2	9.4	(0.4)	0.4
Loan loss coverage (% , %p)	48.3	48.5	49.6	46.4	52.0	49.1	47.9	46.4	45.4	(1.2)	(1.7)
VAMC	2,400	1,483	909	0	0	0	0	0	0	0	0
<b>Parent bank</b>											
Loans to customers and corporate bonds	192,621	198,190	204,537	210,916	231,194	237,778	251,728	210,855	254,573	5.9	23.1
Loans to customers	177,696	189,444	193,962	196,693	202,147	209,947	213,556	196,632	226,127	1.7	10.1
% growth (ytd)	3.6	10.5	13.1	14.7	2.8	6.7	8.6	16.9	20.7	1.8	(4.5)
NPL (3-5 group)	5,227	5,370	5,517	5,179	5,257	5,387	5,690	5,179	6,289	5.6	3.1
NPL ratio (% , %p)	2.9	2.8	2.8	2.6	2.6	2.6	2.7	2.6	2.8	0.1	(0.2)
NPL (2-5 group)	11,692	11,545	11,676	10,884	12,456	13,752	12,517	10,884	14,204	(9.0)	7.2
NPL ratio (% , %p)	6.6	6.1	6.0	5.5	6.2	6.6	5.9	5.5	6.3	(0.7)	(0.2)
<b>FE Credit</b>											
Loans to customers and corporate bonds	53,762	58,189	60,225	60,491	61,601	60,192	64,469	60,552	66,001	7.1	7.0
% growth (ytd)	7.6	16.5	20.6	21.1	1.8	(0.5)	6.6	13.6	9.0	7.1	(14.0)
NPL (3-5 group)	3,149	3,121	3,384	3,619	2,726	3,227	4,457	3,619	5,211	38.1	31.7
NPL ratio (% , %p)	5.9	5.4	5.6	6.0	4.4	5.4	6.9	6.0	7.9	1.6	1.3
NPL (2-5 group)	10,173	9,459	10,160	10,152	9,244	11,631	12,395	10,152	13,132	6.6	22.0
NPL ratio (% , %p)	18.9	16.3	16.9	16.8	15.0	19.3	19.2	16.8	19.9	(0.1)	2.4
Deposit from customers and bond	234,979	251,118	263,119	271,549	272,059	291,749	300,610	271,549	316,003	3.0	14.2
Deposit from customers	188,117	197,363	205,585	213,950	215,716	236,777	241,658	213,950	236,948	2.1	17.5
% growth (ytd)	10.1	15.5	20.3	25.2	0.8	10.7	13.0	25.2	10.7	2.3	(7.4)
CASA (%)	9.3	10.0	9.9	12.9	11.7	11.8	15.4	13.3	0.0	3.5	5.5
<b>Total assets</b>	<b>322,080</b>	<b>348,732</b>	<b>358,236</b>	<b>377,204</b>	<b>393,209</b>	<b>399,473</b>	<b>413,892</b>	<b>377,204</b>	<b>429,202</b>	<b>3.6</b>	<b>15.5</b>
<b>Total equity</b>	<b>36,180</b>	<b>38,208</b>	<b>40,491</b>	<b>42,210</b>	<b>44,524</b>	<b>47,475</b>	<b>49,726</b>	<b>42,210</b>	<b>48,103</b>	<b>4.7</b>	<b>22.8</b>
Total operating income	7,963	8,869	9,501	10,022	9,906	8,948	9,472	36,356	38,281	5.8	(0.3)
Net interest income	6,785	7,666	7,977	8,064	8,021	7,701	7,884	30,492	32,064	2.4	(1.2)
NIM (% , %p)	9.64	10.45	10.24	9.99	9.49	8.29	8.26	9.94	9.39	0.0	(2.0)
Non-interest income	1,177	1,204	1,524	1,958	1,884	1,248	1,588	5,863	6,217	27.3	4.2
Net commission income	708	490	627	928	695	595	814	2,753	3,209	36.8	29.8
Gains on investment securities	172	160	348	410	739	113	253	1,091	1,353	124.8	(27.3)
Other non-interest income	298	553	549	620	451	540	521	2,020	1,655	(3.6)	(5.1)
Provision for credit losses	3,204	3,266	3,523	3,695	3,712	2,720	3,872	13,688	15,222	42.4	9.9
Net operating revenue	4,758	5,604	5,979	6,327	6,194	6,229	5,599	22,668	23,059	(10.1)	(6.3)
SG&A	2,976	3,044	3,122	3,192	3,283	2,555	2,787	12,334	11,879	9.1	(10.7)
CIR (% , %p)	37.4	34.3	32.9	31.9	33.1	28.6	29.4	33.9	31.0	0.9	(3.4)
<b>Pre-provision earnings</b>	<b>4,987</b>	<b>5,826</b>	<b>6,379</b>	<b>6,830</b>	<b>6,623</b>	<b>6,393</b>	<b>6,685</b>	<b>24,022</b>	<b>26,402</b>	<b>4.6</b>	<b>4.8</b>
EBT	1,783	2,560	2,856	3,135	2,911	3,673	2,813	10,334	11,181	(23.4)	(1.5)
Net profit	1,422	2,049	2,283	2,514	2,314	2,951	2,252	8,268	8,945	(23.7)	(1.4)
<b>Controlling-int. NP</b>	<b>1,422</b>	<b>2,049</b>	<b>2,283</b>	<b>2,514</b>	<b>2,314</b>	<b>2,951</b>	<b>2,252</b>	<b>8,268</b>	<b>8,945</b>	<b>(23.7)</b>	<b>(1.4)</b>

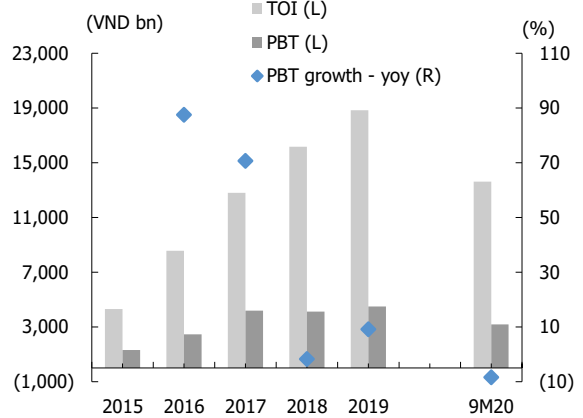
Source: Company data, KIS

**Figure 1. Parent bank results**



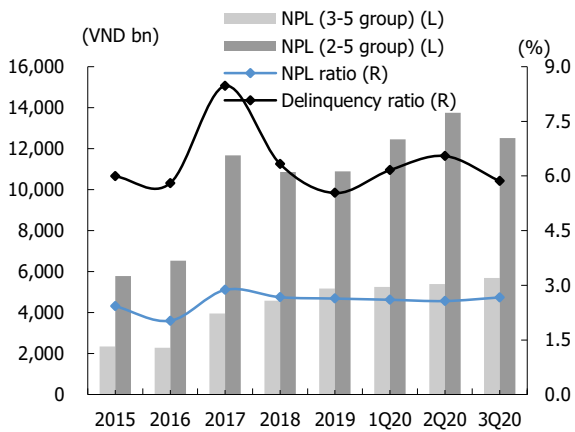
Source: Company data, KIS

**Figure 2. FE results**



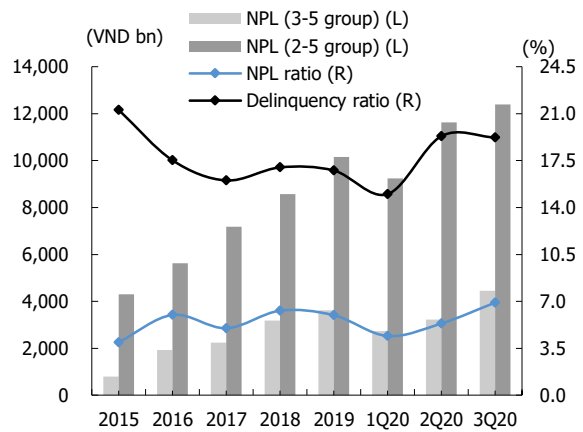
Source: Company data, KIS

**Figure 3. Parent bank NPL ratios**



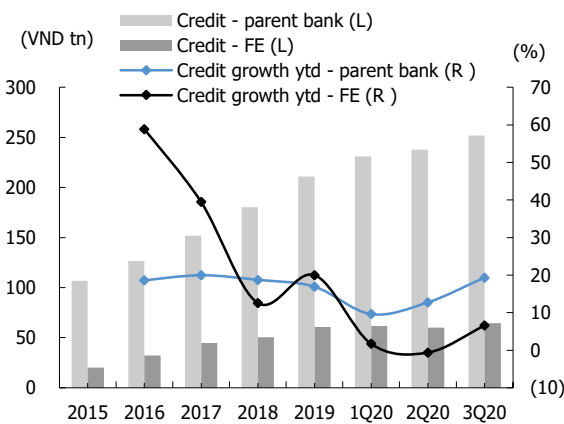
Source: Company data, KIS

**Figure 4. FE NPL ratios**



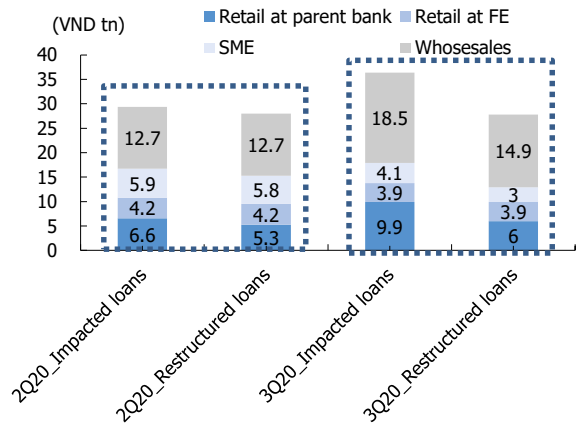
Source: Company data, KIS

**Figure 5. Separate credit**



Source: Company data, KIS

**Figure 6. COVID-19 restructured loans under Cir.01**



Source: Company data, KIS

**Income Balance sheet**

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total assets	277,752	323,291	377,204	429,202	486,921
Gross IEAs	258,545	303,005	351,173	380,334	440,323
Loans and corp bonds	196,673	230,790	271,407	320,574	370,721
Household	117,376	128,504	150,954	n.a	n.a
Corporate	79,297	102,286	120,452	n.a	n.a
Dep't and loans to FIs	36,682	33,669	44,987	24,641	30,801
Dep't to SBV & G-bond	25,190	38,546	34,779	35,120	38,801
VAMC bond	4,048	3,161	-	-	-
NIEAs	18,300	21,315	30,755	53,202	52,062
Others	3,141	4,190	4,723	4,334	5,464
Total liabilities	248,057	288,541	334,994	381,099	429,004
Deposits	133,551	170,851	213,950	236,948	271,890
Debentures	66,105	48,658	57,600	79,055	90,591
Dep't and loans from FIs	37,100	54,561	51,160	49,985	52,614
Loans from Gov't & SBV	26	3,781	19	-	-
Other liabilities	11,275	10,690	12,266	15,111	13,909
Total equities	29,696	34,750	42,210	48,103	57,917
Controlling interests	29,696	34,750	42,210	48,103	57,917
Capital stock	15,706	25,300	25,300	25,470	25,470
Capital surplus	5,866	1,289	693	26	26
Other reserves	3,558	2,974	4,411	6,628	11,429
Retained earnings	4,565	5,187	11,806	15,980	20,993
OCI	-	-	-	-	-
Minority interest	-	-	-	-	-

**Income statement**

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total operating income	24,889	31,086	36,356	38,281	43,917
Net interest income	20,614	24,702	30,492	32,064	36,809
Interest income	34,133	40,280	49,697	52,640	59,623
Interest cost	13,519	15,579	19,204	20,576	22,814
Non-interest income	4,275	6,384	5,863	6,217	7,108
Net commission income	1,303	1,509	2,753	3,209	3,838
Gains on investment securities	573	194	1,091	1,353	945
Other non-interest income	2,400	4,681	2,020	1,655	2,324
Provision for credit losses	8,001	11,253	13,688	15,222	17,415
Net operating revenue	16,888	19,832	22,668	23,059	26,502
SG&A	8,758	10,634	12,334	11,879	13,633
Employee benefits	5,060	6,021	7,327	-	-
Pre-provision earnings	16,131	20,452	24,022	26,402	30,284
Earnings before tax	8,130	9,199	10,334	11,181	12,869
Tax	1,689	1,843	2,066	2,236	2,574
Tax rate (%)	20.8	20.0	20.0	20.0	20.0
Continuing operations profit	5,343	5,263	6,403	8,945	10,295
Reversals of written-off loans	1,098	2,093	1,865	-	-
Net profit	6,441	7,356	8,268	8,945	10,295
Net profit of controlling interest	6,441	7,356	8,268	8,945	10,295

**Key financial data**

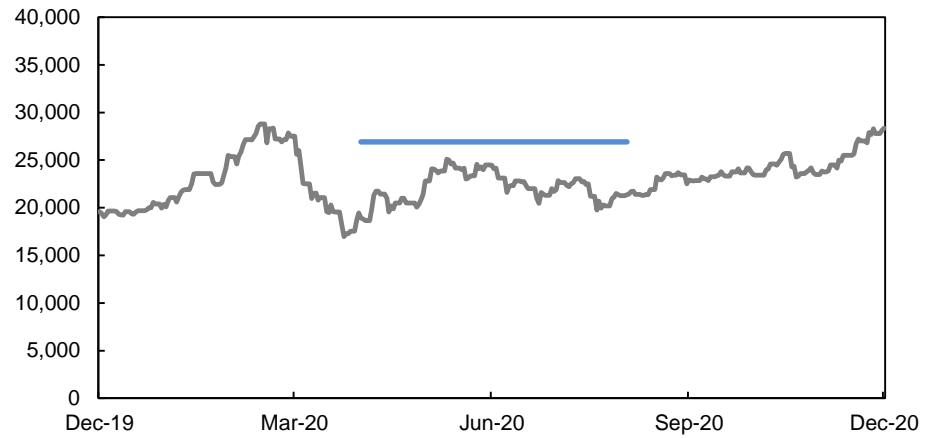
	2017A	2018A	2019A	2020F	2021F
<b>Profitability and efficiency (%)</b>					
ROE	27.5	22.8	21.5	19.8	19.4
ROA	2.54	2.45	2.36	2.22	2.25
NIM	9.38	9.44	9.94	9.39	9.65
Asset yield	15.40	16.20	15.41	15.63	15.41
Cost of fund	6.14	6.05	6.40	5.98	5.84
Cost-income ratio	35.2	34.2	33.9	31.0	31.0
Credit cost	3.98	5.27	5.45	5.14	5.04
<b>Growth (%)</b>					
Net profit of controlling interest	63.7	14.2	12.4	8.2	15.1
Pre-provision earnings	57.5	26.8	17.5	9.9	14.7
Credit growth	23.9	17.3	17.6	18.1	15.6
Total assets	21.4	16.4	16.7	13.8	13.4
<b>Asset quality (%)</b>					
NPL ratio	3.4	3.5	3.4	3.9	4.0
NPL coverage ratio	50.8	45.9	46.4	45.4	45.8
Loan to deposit	94.8	95.9	95.7	101.4	102.3
<b>Capital adequacy (%)</b>					
CAR ratio	14.6	11.2	11.1	11.1	13.4
CET1 ratio	n.a	n.a	n.a	n.a	n.a
Tier 1 ratio	11.2	n.a	10.7	10.7	13.0

**Valuation**

	2017A	2018A	2019A	2020F	2021F
<b>Per share (VND, adj.)</b>					
BPS	11,684	14,145	17,315	19,461	22,740
EPS	2,534	2,994	3,392	3,619	4,042
DPS	-	-	-	-	-
<b>Valuation (x)</b>					
PB	2.4	2.-	1.6	1.5	1.2
PE	11.2	9.5	8.4	7.8	7.0
P/PPE	4.5	3.4	2.9	2.7	2.4
Dividend yield (%)	-	-	-	-	-
Dividend payout ratio (%)	-	-	-	-	-
<b>ROE analysis (%)</b>					
ROE	27.5	22.8	21.5	19.8	19.4
Leverage(x)	9.4	9.3	8.9	8.9	8.4
IEAs to total assets	92.0	92.5	91.9	87.7	89.4
Net income to IEAs	2.5	2.4	2.4	2.4	2.3
Net interest income to IEAs	8.0	8.2	8.7	8.4	8.4
Non-interest income to IEAs	1.7	2.1	1.7	1.6	1.6
Credit cost to IEAs	3.1	3.7	3.9	4.0	4.0
SG&A to IEAs	3.4	3.5	3.5	3.1	3.1

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Vietnam Prosperity JSC Bank (VPB)	04-08-20	BUY	VND26,900		
	04-29-20	BUY	VND26,300		
	08-10-20	HOLD	-		
	12-08-20	BUY	VND37,033		



■ **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.

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