

4 Feb 2021

Bank for Foreign Trade of Viet Nam JSC (VCB)

Upgrade to BUY

- 4Q20 NP was VND5.7tn.
- NPL coverage ratio peaked at 370% given extra provision.
- BUY at TP of VND116,000

Facts: 4Q20 NP completed ~89% our expectation

Even though VCB 4Q20 TOI reached 97% of our forecast at VND14.4tn, the bank's NP completed just 89% at VND5.7tn (+29% yoy and 42% qoq) due to a surprised move of credit cost at VND3.9tn, up 92% qoq and 61% vs. our forecast. NII achieved VND10.4tn, up 19% qoq and Non-NII recorded at VND4tn, up 40% given a bancassurance upfront fee of ~VND1.7tn. NIM was 3.41%, up 37bps qoq. Credit growth reached ~14% yoy, outpacing the industry pace of 12.13%.

Pros & cons: Making superfluous provision

The surge in 4Q20 credit cost was contracted with the decrease in reported NPL ratio (-0.4%p to 0.62%) and COVID-19 restructured loans (-55% qoq to VND5.5tn). The bank explained it was due to extra provisions on some specific clients under SBV's instruction. We estimated these amounts to touch VND2.3tn in 4Q and VND8.6tn in 2020, and may be related to "Vietnam Airlines (HSX: HVN) rescue". This drove NPL coverage ratio to historical level of 370% as of 2020-end. Given that, we believe VCB to cover almost distressed assets.

We expect the credit provision to be flat yoy at VND9.7tn, of which includes ~VND4tn of extra-provision from the "rescue plan". From 2022 onward, we project the provisioning will be back to normal norm with significant drops in credit provision given recovery of aviation sector. NP is forecasted to grow 20% yoy to VND22.2tn in 2021 and 36% yoy to VND30.1tn in 2022.

Action: Upgrade to BUY

We upgrade to BUY VCB at TP of VND116,000 due to following reasons: 1) We respect the bank's journey in expanding its retail lending book (~45% of total loans in 2020, up 25%p in the last five years and have goal to reach 65% by 2025). This may deliver a 10-25 bps per annum expansion in overall NIM and raise proportion of non-interest income to TOI by 4%p to ~30% in forecasted period 2021-2025; 2) The bank had full provisioning on COVID-19 distressed assets in 2020, which may help to elevate the bank bottom line in coming years; and 3) as an industry leader it is worth with a premium forward PB of 3.52x (~ its 3-year average PB).

12M rating **BUY (Upgrade)**

12M TP **116,000**

Up/Downside **+17.7%** (incl 0.8% cash dividend)

Stock data

VNIndex (04 Feb, pt)	1,112
Stock price (04 Feb, VND)	98,900
Market cap (USD mn)	15,930
Shares outstanding (mn)	3,709
52-Week high/low (VND)	107,000/56,738
6M avg. daily turnover (USD mn)	3.95
Free float / Foreign ownership (%)	25.2/23.7
Major shareholders (%)	
SBV	74.8
Mizuho Bank, Ltd	15.0
GIC	2.6

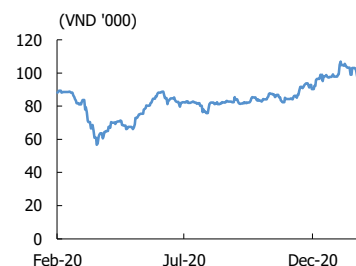
Valuation

	2019A	2020F	2021F
PB (x)	4.5	4.5	3.8
PE (x)	22.9	23.0	18.6
ROA (%)	1.6	1.4	1.6
ROE (%)	25.9	22.9	24.9
DY (%)	0.8	0.8	0.8
P/PPE (x)	12.3	11.1	9.8
BPS (VND,adj)	21,763	21,763	26,292
EPS (VND,adj)	4,326	4,309	5,319

Performance

	1M	6M	12M
Absolute (%)	(0.1)	21.7	11.0
Relative to VNIndex (%p)	0.5	(14.0)	(11.0)

Stock price



Source: Bloomberg

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Table 1. Earnings trend and outlook

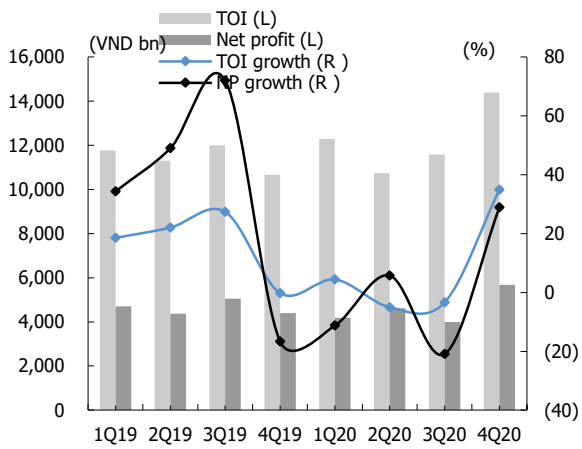
									(VND bn, %, %p)			
	2019				2020				2019	2020	4Q20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			QoQ	YoY
Loans to customers and corporate bonds	680,486	702,920	715,610	741,931	762,729	778,101	790,404	845,467	741,931	845,467	1.6	10.5
% growth (ytd)	6.4	9.9	11.8	16.0	2.8	4.9	6.5	14.0	16.0	14.0	-	(5.3)
Loans to customers	673,022	695,438	708,096	734,707	754,505	770,744	783,757	839,788	734,707	839,788	1.7	10.7
NPL (3-5 group)	6,952	7,134	7,625	5,804	6,191	6,433	7,885	5,230	5,804	5,230	22.6	3.4
NPL ratio (% , %p)	1.0	1.0	1.1	0.8	0.8	0.8	1.0	0.6	0.8	0.6	0.2	(0.1)
NPL (2-5 group)	10,864	11,012	11,824	8,364	11,250	14,158	12,041	9,584	8,364	9,584	(15.0)	1.8
NPL ratio (% , %p)	1.6	1.6	1.7	1.1	1.5	1.8	1.5	1.1	1.1	1.1	(0.3)	(0.1)
Loan loss coverage (% , %p)	169.2	176.8	185.2	179.5	235.0	254.5	215.1	370.4	179.5	370.4	(39.4)	29.9
VAMC	-	-	-	-	-	-	-	-	-	-	-	-
Deposit from customers and bond	859,626	892,569	923,505	949,835	955,420	1,002,513	1,002,754	1,053,354	949,835	1,053,354	0.0	8.6
Deposit from customers	838,277	871,229	902,184	928,451	934,048	981,218	981,492	1,032,114	928,451	1,032,114	0.0	8.8
% growth (ytd)	4.5	8.6	12.5	15.8	0.6	5.7	5.7	11.2	15.8	11.2	-	(6.8)
CASA (%)	28.0	27.5	27.1	28.3	26.2	26.5	28.0	29.7	28.3	29.7	1.4	0.8
Total assets	1,073,332	1,122,655	1,157,490	1,222,719	1,144,270	1,185,262	1,188,572	1,327,537	1,222,719	1,327,537	0.3	2.7
Total equity	72,919	76,321	81,312	80,800	84,984	89,485	93,576	98,774	80,800	80,800	4.6	15.1
Total operating income	11,768	11,303	11,995	10,667	12,285	10,734	11,586	14,393	45,730	48,999	7.9	(3.4)
Net interest income	8,499	8,580	8,859	8,640	9,034	8,077	8,723	10,390	34,577	36,225	8.0	(1.5)
NIM (% , %p)	3.3	3.2	3.2	3.0	3.2	2.9	3.0	3.4	3.1	2.9	0.2	(0.2)
Non-interest income	3,269	2,724	3,135	2,028	3,251	2,656	2,863	4,003	11,153	12,774	7.8	(8.7)
Net commission income	1,998	1,775	2,186	1,728	2,235	1,977	2,291	4,012	7,685	10,515	15.9	4.8
Gains on investment securities	105	181	66	47	(23)	394	32	55	398	458	(91.8)	(50.9)
Other non-interest income	1,166	768	883	252	1,039	286	540	(65)	3,070	1,800	88.8	(38.9)
Provision for credit losses	1,506	1,811	1,503	1,971	2,152	1,856	2,025	3,884	6,790	9,917	9.1	34.7
Net operating revenue	10,262	9,493	10,492	8,696	10,133	8,877	9,562	10,510	38,940	39,082	7.7	(8.9)
SG&A	4,384	4,067	4,182	3,186	4,910	3,118	4,579	3,430	15,818	16,037	46.9	9.5
CIR (%)	37.3	36.0	34.9	29.9	40.0	29.0	39.5	23.8	34.6	32.7	10.5	4.6
Pre-provision earnings	7,384	7,236	7,812	7,481	7,375	7,616	7,008	10,963	29,913	32,961	(8.0)	(10.3)
EBT	5,878	5,425	6,309	5,510	5,223	5,759	4,983	7,079	23,122	23,045	(13.5)	(21.0)
Net profit	4,711	4,365	5,052	4,400	4,183	4,616	3,996	5,674	18,526	18,468	(13.4)	(20.9)
Controlling-int. NP	4,707	4,361	5,048	4,397	4,178	4,610	3,991	5,668	18,511	18,447	(13.4)	(20.9)

Source: Company data, KIS

■ Company overview

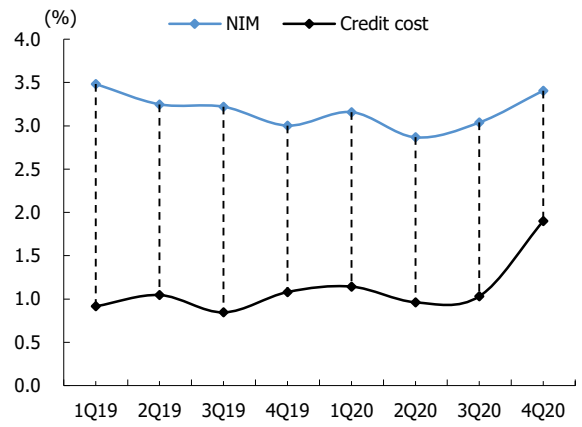
Vietcombank (VCB) is the fourth largest bank in terms of total assets and is the leader in forex trading and international settlement in Vietnam. It is also the most profitable locally and aims to become one of the 300 largest banking financial groups globally.

Figure 1. 4Q20 results



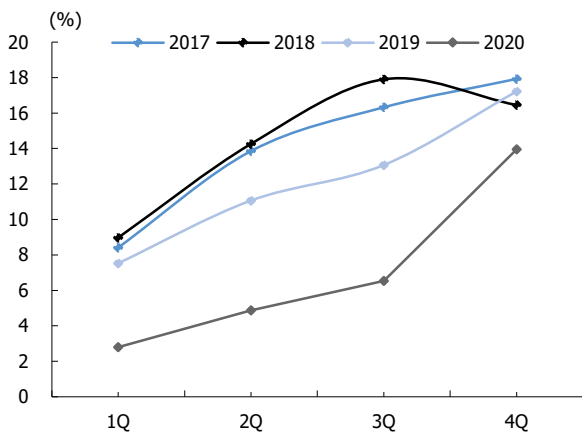
Source: Company data, KIS Vietnam

Figure 2. Annualized NIM & credit cost



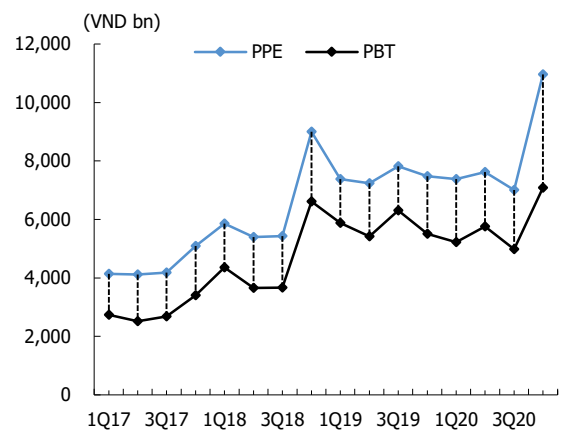
Source: Company data, KIS Vietnam

Figure 3. Quarterly YTD credit growth



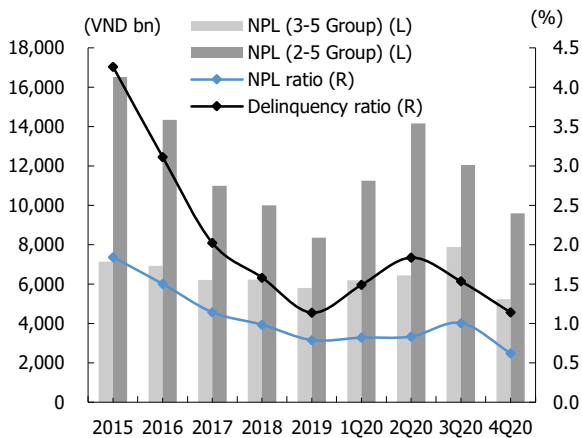
Source: Company data, KIS Vietnam

Figure 4. PPE and PBT



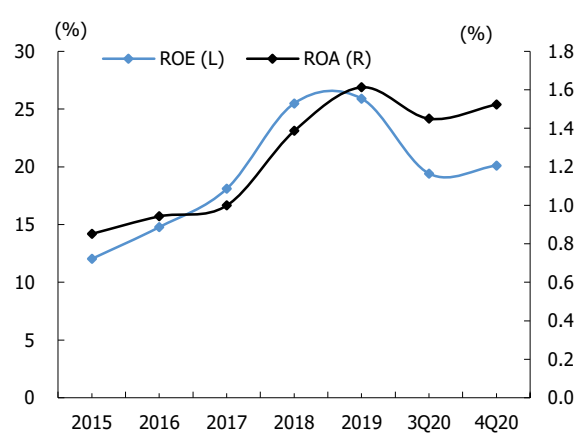
Source: Company data, KIS Vietnam

Figure 5. NPL ratios



Source: Company data, KIS Vietnam

Figure 6. T12M profitability



Source: Company data, KIS Vietnam

Balance sheet

(VND bn)

	2018A	2019A	2020A	2021F	2022F
Total assets	1,074,027	1,222,719	1,327,537	1,445,090	1,604,023
Gross IEAs	1,045,872	1,191,362	1,300,891	1,419,787	1,576,822
Loans and corp bonds	639,799	741,931	845,467	947,377	1,061,608
Household	235,884	315,782	380,752	-	-
Corporate	403,915	426,149	464,715	947,377	1,061,608
Dep't and loans to FIs	287,958	313,310	352,713	355,653	382,417
Dep't to SBV & G-bond	118,115	136,121	102,711	116,757	132,797
VAMC bond	-	-	-	-	-
NIEAs	39,864	45,381	47,731	52,413	56,286
Others	11,710	14,025	21,085	27,109	29,086
Total liabilities	1,011,916	1,141,919	1,246,737	1,347,494	1,482,173
Deposits	801,929	928,451	1,032,114	1,144,534	1,270,345
Debentures	21,461	21,384	21,240	26,361	29,258
Dep't and loans from FIs	76,550	73,638	103,599	108,777	114,215
Loans from Gov't & SBV	90,685	92,366	41,177	36,942	36,942
Other liabilities	21,291	26,081	48,607	30,880	31,413
Total equities	62,110	80,800	80,800	97,596	121,850
Controlling interests	62,041	80,717	80,717	97,513	121,766
Capital stock	35,978	37,089	37,089	37,089	37,089
Capital surplus	-	4,995	4,995	4,995	4,995
Other reserves	9,446	12,186	12,186	14,960	18,295
Retained earnings	16,139	26,055	26,055	40,093	61,010
OCI	479	391	391	376	376
Minority interest	69	83	83	83	83

Income statement

(VND bn)

	2018A	2019A	2020A	2021F	2022F
Total operating income	39,278	45,730	48,999	57,354	67,737
Net interest income	28,409	34,577	36,225	42,628	49,860
Interest income	55,864	67,724	69,126	79,189	90,688
Interest cost	27,455	33,147	32,901	36,561	40,829
Non-interest income	10,870	11,153	12,774	14,726	17,877
Net commission income	5,669	7,685	10,515	12,483	14,979
Gains on investment securities	1,967	398	458	376	333
Other non-interest income	3,234	3,070	1,800	1,867	2,565
Provision for credit losses	7,398	6,790	9,917	9,732	6,605
Net operating revenue	31,880	38,940	39,082	47,622	61,131
SG&A	13,611	15,818	16,037	19,856	23,451
Employee benefits	7,678	8,669	8,602.87	-	-
Pre-provision earnings	25,667	29,913	32,961	37,498	44,286
Earnings before tax	18,269	23,122	23,045	27,766	37,680
Tax	3,647	4,596	4,577	5,553	7,536
Tax rate (%)	20	20	20	20	20
Continuing operations profit	11,350	15,346	16,046	20,039	27,325
Reversals of written-off loans	3,272	3,180	2,422	2,173	2,820
Net profit	14,622	18,526	18,468	22,213	30,144
Net profit of controlling interest	14,606	18,511	18,447	22,187	30,110

Key financial data

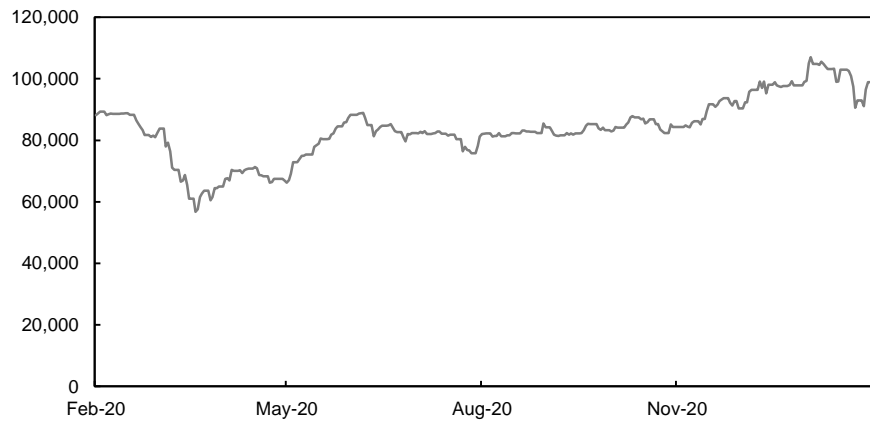
	2018A	2019A	2020A	2021F	2022F
Profitability and efficiency (%)					
ROE	25.5	25.9	22.9	24.9	27.5
ROA	1.39	1.61	1.45	1.60	1.98
NIM	2.79	3.12	2.93	3.16	3.36
Asset yield	5.49	6.10	5.59	5.87	6.11
Cost of fund	2.81	3.15	2.84	2.91	2.95
Cost-income ratio	34.7	34.6	32.7	34.6	34.6
Credit cost	1.24	0.98	1.25	1.09	0.66
Growth (%)					
Net profit of controlling interest	60.7	26.7	-0.3	20.3	35.7
Pre-provision earnings	46.3	16.5	10.2	13.8	18.1
Credit growth	14.6	16.0	14.0	12.1	12.1
Total assets	3.7	13.8	8.6	8.9	11.0
Asset quality (%)					
NPL ratio	1.0	0.8	0.6	0.7	0.9
NPL coverage ratio	165.4	179.5	370.4	392.2	312.3
Loan to deposit	71.2	72.7	73.2	74.2	75.2
Capital adequacy (%)					
CAR ratio	12.1	9.6	8.4	9.0	10.1
CET1 ratio	N/A	N/A	N/A	N/A	N/A
Tier 1 ratio	0.0	8.0	7.2	7.9	9.0

Valuation

	2018A	2019A	2020A	2021F	2022F
Per share (VND, adj.)					
BPS	17,244	21,763	21,763	26,292	32,831
EPS	3,334	4,326	4,309	5,319	7,321
DPS	800	800	800	800	800
Valuation (x)					
PB	5.7	4.5	4.5	3.8	3.0
PE	29.7	22.9	23.0	18.6	13.5
P/PPE	13.9	12.3	11.1	9.8	8.3
Dividend yield (%)	0.0	0.8	0.8	0.8	0.8
Dividend payout ratio (%)	24.0	18.5	18.6	15.0	10.9
ROE analysis (%)					
ROE	25.5	25.9	22.9	24.9	27.5
Leverage(x)	17.3	15.1	16.4	14.8	13.2
IEAs to total assets	96.3	96.3	96.5	96.4	96.6
Net income to IEAs	1.4	1.6	1.4	1.6	1.9
Net interest income to IEAs	2.7	2.9	2.8	3.0	3.2
Non-interest income to IEAs	1.0	0.9	1.0	1.0	1.1
Credit cost to IEAs	0.7	0.6	0.8	0.7	0.4
SG&A to IEAs	1.3	1.3	1.2	1.4	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)	04-Feb-21	BUY	VND116,000	-	-
	23-Oct-20	HOLD		-	-



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- 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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Prepared by: Yen Tran

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