

30 Oct 2023

## Vietcombank (VCB)

### Solid profit growth with the high loan loss coverage ratio

#### 3Q23 PBT rose +19.6%yoy

3Q23 PBT rallied +19.6%yoy to VND9,051bn mainly thanks lower provision expense (-46%yoy) and operating expenses (-18%yoy). Meanwhile, total operating income (TOI) slightly fell -5.6%yoy as the below details:

- Net interest incomes (80% of TOI): 3Q23 NII was down by -8%yoy to VND12,596bn with the slow credit growth of 3.8%YTD (vs 3Q22's 17.3%YTD and the industry's 6.9%YTD) and a slightly decrease in 3Q23 NIM of 3.0% (vs 3Q23 of 3.44%). In 2023, VCB has implemented the loan packages of lending interest rate reduction during the economic slowdown, resulting in a decrease in asset yields.
- Non-net interest incomes (20% of TOI): 3Q23 Non-net interest income stayed flat (+4%yoy) to VND3,181bn. Of which services incomes fell by -19%yoy with the insurance market slowdown in 2023; Forex incomes was the same as previous period (-0.4%yoy).

9M2023 PBT climbed +18.5%yoy to VND29,550bn, equaling 69% of 2023 PBT guidance and 71% of our forecasts.

#### Operating expenses (OPEX)

3Q23 operating expenses fell -18%yoy to VND5,233bn, leading to a decrease in 3Q23 CIR from 38% in 3Q22 to 33% in 3Q23. In accumulated results, 9M2023 OPEX was down -3%yoy to VND16,163bn (9M23 CIR of 31% vs 9M22 CIR of 34%) thanks to manageable general expenses (-27%yoy to VND4,430bn)

#### Non-performing loans climbed higher levels

NPL (2-5 group)/ NPL (3-5 group) jumped to 1.9%/1.2% (vs 2Q23: 1.5%/0.8%) with a sharp increase in doubtful debts – group 4 (+164%qoq) and bad debts – group 5 (+29%qoq). However, 3Q23 NPL (3-5 group) remained under controls – below the 2023 guidance of 1.5%. 3Q23 loan loss coverage ratio (LLCR) was still high at 270%, resulting in high operational safety and optimize business performance.

#### Action: Confirmed BUY with target price of VND100,000

We maintain BUY with a TP of 100,000, implying a +18% upside buy as the initial report (23 Oct 2023). We believe that VCB could have a solid profitability prospect thanks to not much pressure on the increasing risk provision expense in the industry's difficult period and NIM improvement without lending interest rate reduction packages in the period of market recovery.

12M rating **BUY (maintain)**

12M TP **100,000** from 85,000

Up/Downside +18%

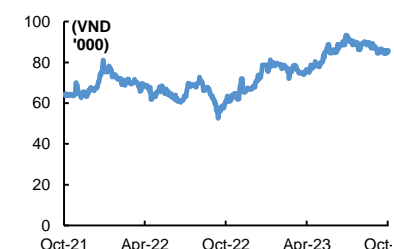
#### Stock Data

VNIndex (Oct 30, pt)	1,042
Stock price (Oct 30, VND)	85,900
Market cap (USD mn)	19,543
Shares outstanding (mn)	5,589
52-Week high/low (VND)	93,400/60,796
6M avg. daily turnover (USD mn)	3.93
Free float / Foreign ownership (%)	25.2/23.5
Major shareholders (%)	
SBV	63.3
Mizuho	12.7
GIC	2.16

#### Performance

	1M	6M	12M
Absolute (%)	0.0	0.1	0.4
Relative to VNIndex (%p)	0.1	0.1	0.4

#### Stock price trend



Source: Bloomberg

#### Research Dep

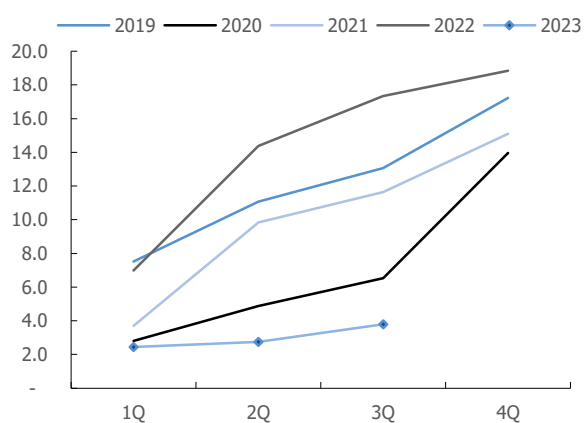
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Table 1. Earnings trend and outlook

	4Q22	1Q23	2Q23	3Q23	qoq (%)	yoy (%)	9M23	yoy	Vs. KIS forecast (%)
TOI	18,663	18,517	17,470	15,777	(9.7)	(5.6)	51,765	4.7	71.7
PPE	14,098	13,243	11,814	10,545	(10.7)	1.9	35,602	8.8	70.4
PBT	12,419	11,221	9,278	9,051	(2.4)	19.6	29,550	18.5	71.1
NP	9,928	8,986	7,423	7,269	(2.1)	19.9	23,678	18.6	71.3

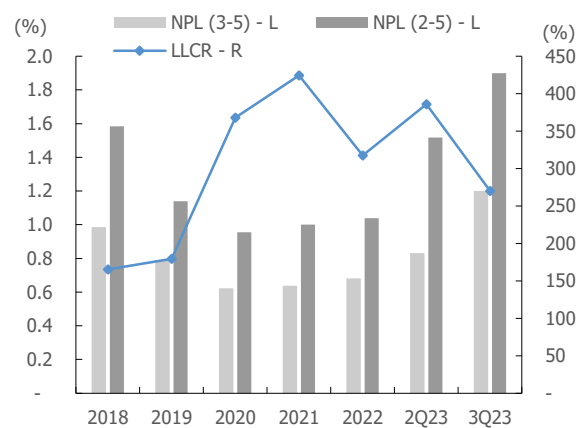
Nguồn: Fiinpro, VCB, KIS VN

Figure 1. VCB's credit growth



Source: VCB, KIS VN

Figure 2. NPL and LLR



Source: VCB, KIS VN

### ■ 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.

**Balance sheet**

(VND tn)

	2021A	2022A	2023F	2024F	2025F
Total assets	1,415	1,814	1,820	2,017	2,292
Gross IEAs	1,386	1,760	1,796	1,992	2,264
Loans and corp bonds	973	1,156	1,246	1,416	1,627
Household	448	540	562	625	727
Corporate	525	616	1,246	1,416	1,627
Dep't and loans to FIs	318	409	366	377	418
Dep't to SBV and G-bond	95	195	184	199	218
VAMC bond	-	-	-	-	-
NIEAs	59	90	67	70	76
Others	30	36	43	45	47
Total liabilities	1,306	1,678	1,652	1,814	2,046
Deposits	1,135	1,243	1,373	1,519	1,723
Debentures	17	25	18	23	34
Dep't and loans from FIs	110	233	186	195	205
Loans from Gov't and SBV	9	67	11	12	12
Other liabilities	34	110	65	65	71
Total equities	109	136	167	203	246
Controlling interests	109	136	167	203	245
Capital stock	37	47	56	56	56
Capital surplus	5	5	5	5	5
Other reserves	18	23	27	32	38
Retained earnings	48	61	79	109	146
OCI	0	(0)	1	1	1
Minority interest	0	0	0	0	0

**Key financial data**

	2021A	2022A	2023F	2024F	2025F
<b>Profitability and efficiency (%)</b>					
ROE	21.6	24.4	21.9	20.7	20.3
ROA	1.60	1.85	1.83	2.00	2.12
NIM	3.18	3.41	3.21	3.41	3.53
Asset yield	5.30	5.64	5.85	5.55	5.95
Cost of fund	2.30	2.45	2.96	2.41	2.74
Cost-income ratio	31.0	31.2	30.0	30.0	30.0
Credit cost	1.29	0.89	0.75	0.69	0.70
<b>Growth (%)</b>					
Net profit of controlling interest	18.8	36.4	11.1	15.1	19.1
Pre-provision earnings	18.5	19.6	8.0	12.8	18.5
Credit growth	15.1	18.8	7.7	13.6	14.9
Total assets	6.7	28.2	0.3	10.8	13.6
<b>Asset quality (%)</b>					
NPL ratio	0.6	0.7	0.8	0.8	0.7
NPL coverage ratio	424.4	316.9	308.8	289.2	328.0
Loan to deposit	77.4	77.6	79.4	81.9	83.3
<b>Capital adequacy (%)</b>					
CAR ratio	10.4	10.2	11.9	13.0	14.0
CET1 ratio	N/A	N/A	N/A	N/A	N/A
Tier 1 ratio	9.2	9.1	11.1	12.1	12.9

**Income statement**

(VND tn)

	2021A	2022A	2023F	2024F	2025F
Total operating income	57	68	72	81	97
Net interest income	42	53	57	64	75
Interest income	71	88	103	104	126
Interest cost	28	35	47	40	51
Non-interest income	14	15	16	18	22
Net commission income	12	13	13	14	16
Gains on investment securities	0	0	0	0	0
Other non-interest income	2	2	3	3	6
Provision for credit losses	12	9	9	9	11
Net operating revenue	45	59	63	72	86
SG&A	18	21	22	24	29
Employee benefits					
Pre-provision earnings	39	47	51	57	68
Earnings before tax	27	37	42	48	57
Tax	5	7	8	10	11
Tax rate (%)	0	0	0	0	0
Continuing operations profit	19	28	30	35	39
Reversals of written-off loans	3	2	3	4	6
Net profit	22	30	33	38	46
Net profit of controlling interest	22	30	33	38	46

**Valuation**

	2021A	2022A	2023F	2024F	2025F
<b>Per share (VND, adj.)</b>					
BPS	29,397	28,644	29,920	36,301	43,919
EPS	5,357	5,824	5,527	6,381	7,618
DPS	0	0	0	0	0
<b>Valuation (x)</b>					
PB	2.9	3.0	2.8	2.3	1.9
PE	15.8	14.6	15.3	13.3	11.1
P/PPE	8.0	8.6	9.4	8.3	7.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
<b>ROE analysis (%)</b>					
ROE	21.6	24.4	21.9	20.7	20.3
Leverage(x)	13.0	13.4	10.9	9.9	9.3
IEAs to total assets	95.9	95.1	96.4	96.6	96.8
Net income to IEAs	1.6	1.7	1.9	1.9	2.0
Net interest income to IEAs	3.1	3.0	3.1	3.2	3.3
Non-interest income to IEAs	1.0	0.8	0.9	0.9	1.0
Credit cost to IEAs	0.8	0.5	0.5	0.5	0.5
SG&A to IEAs	1.3	1.2	1.2	1.2	1.3

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- BUY: Expected total return will be 15% or more
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- 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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