

30 Aug 2024

## Vietcombank (VCB)

### Enhancing asset quality

- Programs to reduce lending interest rates, allocate more lending to priority sectors, and slow credit growth in 1H24
- Promising credit disbursement and risk management
- Maintain a BUY rating

### Facts: Cost mitigation secured profit growth

- 2Q24 PBT rallied +9.0% yoy to VND10.1tn thanks to a decrease in operating costs (-9.4% yoy) and provision risk expenses (-40.3% yoy). Accumulated 1H24 PBT posted VND20.8tn, up +1.6%yoy, equaling 48% of the 2024 target and 46% of KIS estimation.
- In the top line, 2Q24 net interest incomes stayed flat (-0.8% yoy) due to lower asset yields, resulting from programs of lending interest rates, more lending allocation to priority sectors, and slow credit growth. Credit growth surged from 5M24's +1.6% YTD to 6M24's +7.74% YTD. 2Q24 Corporate loans had a strong growth (+10.5%YTD) and retail loans signaled recovery from 1Q24's -1.6% YTD to 2Q24's +6.1% YTD.
- 2Q24 Non-interest incomes (-18% yoy) were gloomy from bancassurance, FX trading, and other one-off expenses of VAT payment for LC services since 2011. Fierce competition in the FX business led to a decrease in FX incomes.
- VCB kept its best-in-class asset quality. NPL (3-5 group)/NPL (2-5 group) slightly fell from 1.22%/1.8% in 1Q24 to 1.20%/1.6% in 2Q24, belonging to the lowest ratio in the industry. LLCR rallied from 1Q24's 200% to 2Q24's 212%.

### Pros & Cons: Promising credit disbursement and risk management

- Wholesale loans could keep their growth momentum in 2H24, following the market conditions. The management expects that the main drivers of credit growth will include FDI, large corporations, and national projects (Long Thanh International Airport, block B-O Mon, etc). Long-term orientation still promotes increasing lending to retail customers. In 2H24, better market conditions could drive higher demand for retail loans and improvement in NIM.
- Non-performing loans could continue to keep the top lowest ratios in the industry and large provision buffers with high LLCR.

12M rating **BUY (maintain)**

12M TP **109,000** from 91,700

Up/Downside +19%

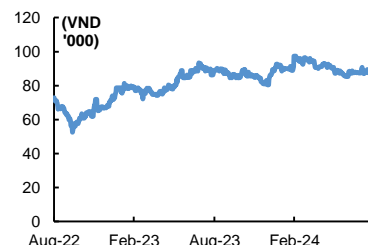
#### Stock Data

VNIndex (Aug 30, pt)	1,284
Stock price (Aug 30, VND)	91,700
Market cap (USD mn)	20,604
Shares outstanding (mn)	5,589
52-Week high/low (VND)	97,400/80,300
6M avg. daily turnover (USD mn)	5.71
Free float / Foreign ownership (%)	25.2/23.4
Major shareholders (%)	
SBV	63.3
Mizuho	12.7
GIC	2.16

#### Performance

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

#### Stock price trend



Source: Bloomberg

#### Research Dep

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**Action: Confirmed BUY with a target price of VND109,000**

We maintain BUY with a TP of 109,000, implying a +19% upside. Better business circumstances could allow VCB to maintain moderate growth in 2024F. In addition to the retail segment's revival, VCB's solid risk management could relieve pressure on risk provision expenses.

Table 1. Earnings trend and outlook

Unit: VNDbn, %

	2023				2024				2023	2024F	2024	2024
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Loans to customers and corporate bonds</b>	<b>1,184,859</b>	<b>1,188,232</b>	<b>1,200,276</b>	<b>1,280,733</b>	1,276,727	1,379,829	1,408,806	1,458,823	1,280,733	1,458,823	8.1	16.1
% growth (ytd)	2.5	2.7	3.8	10.7	(0.3)	7.7	10.0	13.9	10.7	13.9	-	-
Loans to customers	1,174,081	1,177,728	1,189,831	1,270,359	1,266,478	1,369,645	1,397,395	1,447,931	1,270,359	1,447,931	8.1	16.3
NPL (3-5 group)	9,942	9,783	14,393	12,455	15,459	16,446	16,779	17,386	12,455	14,196	6.4	68.1
NPL ratio (% , %p)	0.85	0.83	1.21	0.98	1.22	1.20	1.20	1.20	0.98	0.98	(0.0)	0.4
NPL (2-5 group)	17,485	17,863	22,051	18,015	22,502	21,322	21,754	22,541	18,015	20,533	(5.2)	19.4
NPL ratio (% , %p)	1.49	1.52	1.85	1.42	1.78	1.56	1.56	1.56	1.4	1.4	(0.2)	0.0
Loan loss coverage (% , %p)	321	386	270	230	200	212	210	203	230	215	12.3	(173.7)
VAMC	-	-	-	-	-	-	-	-	-	-	-	-
Deposit from customers and bond	1,308,826	1,343,178	1,364,285	1,415,607	1,377,231	1,401,585	1,425,147	1,574,215	1,415,607	1,574,215	1.8	4.3
Deposit from customers	1,281,488	1,326,854	1,349,007	1,395,695	1,347,326	1,374,683	1,402,535	1,550,951	1,395,695	1,550,951	-	-
% growth (ytd)	3.2	5.9	7.5	11.6	(2.7)	(1.0)	5.0	11.2	11.6	11.2	2.0	3.6
CASA (%)	29.5	29.0	30.3	33.9	33.8	34.2	34.2	36.1	33.9	36.1	0.4	5.2
<b>Total assets</b>	<b>1,846,431</b>	<b>1,704,273</b>	<b>1,731,306</b>	<b>1,839,223</b>	<b>1,773,714</b>	<b>1,905,639</b>	<b>1,937,674</b>	<b>2,105,925</b>	<b>1,839,223</b>	<b>2,105,925</b>	<b>7.4</b>	<b>11.8</b>
<b>Total equity</b>	<b>144,565</b>	<b>151,903</b>	<b>159,139</b>	<b>168,449</b>	<b>173,514</b>	<b>181,597</b>	<b>187,186</b>	<b>201,682</b>	<b>168,449</b>	<b>201,682</b>	<b>4.7</b>	<b>19.5</b>
Total operating income	18,517	17,470	15,777	15,959	17,280	16,752	18,653	20,866	67,723	73,551	(3.1)	(4.1)
Net interest income	14,203	14,021	12,596	12,801	14,078	13,908	14,603	15,793	53,621	58,382	(1.2)	(0.8)
NIM (% , %p)	3.2	3.3	3.0	2.9	3.2	3.1	3.1	3.2	3.0	3.4	(0.1)	(0.2)
Non-interest income	4,314	3,450	3,181	3,158	3,202	2,844	4,050	5,073	14,103	15,169	(11.2)	(17.6)
Net commission income	3,162	3,103	2,472	2,703	2,639	2,660	3,000	4,228	11,440	12,527	0.8	(14.3)
Gains on investment securities	69	89	188	44	55	160	50	39	391	304	189.8	80.0
Other non-interest income	1,083	258	521	410	508	24	1,000	805	2,272	2,338	(95.2)	(90.6)
Provision for credit losses	2,022	2,536	1,494	(1,487)	1,508	1,514	1,602	2,125	4,565	6,749	0.4	(40.3)
Net operating revenue	16,496	14,934	14,284	17,446	15,772	15,238	17,051	18,741	63,159	66,802	(3.4)	2.0
SG&A	5,274	5,656	5,233	5,752	5,054	5,122	5,703	6,186	21,915	22,065	1.3	(9.4)
CIR (%)	28.5	32.4	33.2	36.0	29.2	30.6	30.6	29.6	32.4	30.0	1.3	(1.8)
<b>Pre-provision earnings</b>	<b>13,243</b>	<b>11,814</b>	<b>10,545</b>	<b>10,207</b>	<b>12,226</b>	<b>11,630</b>	<b>12,950</b>	<b>14,680</b>	<b>45,809</b>	<b>51,485</b>	<b>(4.9)</b>	<b>(1.6)</b>
EBT	11,221	9,278	9,051	11,693	10,718	10,116	11,348	12,555	41,244	44,737	(5.6)	9.0
Net profit	8,992	7,428	7,275	9,360	8,586	8,125	9,078	10,001	33,054	35,789	(5.4)	9.4
<b>Controlling-int. NP</b>	<b>8,986</b>	<b>7,423</b>	<b>7,269</b>	<b>9,355</b>	<b>8,580</b>	<b>8,119</b>	<b>9,073</b>	<b>9,995</b>	<b>33,033</b>	<b>35,766</b>	<b>(5.4)</b>	<b>9.4</b>

Source: Fiiipro, 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	2023A	2024F	2025F
Total assets	1,415	1,814	1,839	2,106	2,394
Gross IEAs	1,386	1,760	1,818	2,085	2,370
Loans and corp bonds	973	1,156	1,281	1,459	1,707
Household					
Corporate					
Dep't and loans to FIs	318	409	396	474	498
Dep't to SBV and G-bond	95	195	141	152	165
VAMC bond	-	-	-	-	-
NIEAs	59	90	56	58	64
Others	30	36	35	37	39
Total liabilities	1,306	1,678	1,671	1,904	2,153
Deposits	1,135	1,243	1,396	1,551	1,766
Debentures	17	25	20	23	35
Dep't and loans from FIs	110	233	214	225	236
Loans from Gov't and SBV	9	67	2	71	74
Other liabilities	34	110	40	35	42
Total equities	109	136	168	202	241
Controlling interests	109	136	168	202	241
Capital stock	37	47	56	56	56
Capital surplus	5	5	5	5	5
Other reserves	18	23	23	28	33
Retained earnings	48	61	85	112	146
OCI	0	(0)	(0)	1	1
Minority interest	0	0	0	0	0

**Key financial data**

	2021A	2022A	2023A	2024F	2025F
<b>Profitability and efficiency (%)</b>					
ROE	21.6	24.4	21.7	19.3	19.5
ROA	1.6	1.9	1.8	1.8	1.9
NIM	3.2	3.4	3.0	3.0	3.4
Asset yield	5.3	5.6	6.1	4.9	5.8
Cost of fund	2.3	2.5	3.4	2.0	2.6
Cost-income ratio	31.0	31.2	32.4	30.0	30.0
Credit cost	1.3	0.9	0.4	0.5	0.7
<b>Growth (%)</b>					
Net profit of controlling interest	18.8	36.4	10.5	8.3	20.4
Pre-provision earnings	18.5	19.6	-2.2	12.4	26.5
Credit growth	15.1	18.8	10.7	13.9	17.0
Total assets	6.7	28.2	1.4	14.5	13.7
<b>Asset quality (%)</b>					
NPL ratio	0.6	0.7	1.0	1.0	0.7
NPL coverage ratio	424.4	316.9	230.3	215.1	287.7
Loan to deposit	77.4	77.6	79.6	82.1	84.7
<b>Capital adequacy (%)</b>					
CAR ratio	10.4	10.2	12.2	12.5	13.3
CET1 ratio	N/A	N/A	N/A	N/A	N/A
Tier 1 ratio	9.2	9.1	11.1	11.6	12.2

**Income statement**

(VND tn)

	2021A	2022A	2023A	2024F	2025F
Total operating income	57	68	68	74	93
Net interest income	42	53	54	58	75
Interest income	71	88	108	94	128
Interest cost	28	35	55	36	53
Non-interest income	14	15	14	15	18
Net commission income	12	13	11	13	14
Gains on investment securities	0	0	0	0	0
Other non-interest income	2	2	2	2	3
Provision for credit losses	12	9	5	7	11
Net operating revenue	45	59	63	67	82
SG&A	18	21	22	22	28
Employee benefits	10	11	12	-	-
Pre-provision earnings	39	47	46	51	65
Earnings before tax	27	37	41	45	54
Tax	5	7	8	9	11
Tax rate (%)	0	0	0	0	0
Continuing operations profit	19	28	31	34	40
Reversals of written-off loans	3	2	2	2	3
Net profit	22	30	33	36	43
Net profit of controlling interest	22	30	33	36	43

**Valuation**

	2021A	2022A	2023A	2024F	2025F
<b>Per share (VND, adj.)</b>					
BPS	19,508	24,254	25,520	36,068	43,089
EPS	3,491	4,896	4,471	5,770	7,021
DPS	0	0	0	0	0
<b>Valuation (x)</b>					
PB	4.7	3.8	3.6	2.5	2.1
PE	26.3	18.7	20.5	15.9	13.1
P/PPE	13.1	10.9	13.2	10.0	7.9
Dividend yield (%)	1.3	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	21.7	19.3	19.5
Leverage(x)	13.0	13.4	10.9	10.4	9.9
IEAs to total assets	95.9	95.1	97.0	97.3	97.4
Net income to IEAs	1.6	1.7	1.8	1.7	1.8
Net interest income to IEAs	3.1	3.0	2.9	2.8	3.2
Non-interest income to IEAs	1.0	0.8	0.8	0.7	0.7
Credit cost to IEAs	0.8	0.5	0.3	0.3	0.5
SG&A to IEAs	1.3	1.2	1.2	1.1	1.2

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- 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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