

LIENVIET POST BANK - LPB

Add

Earnings growth to decelerate in FY23-24F

Target price (12M)
VND17,400

FINANCIALS | Update

Consensus*: Add:4 Hold:0 Reduce:0

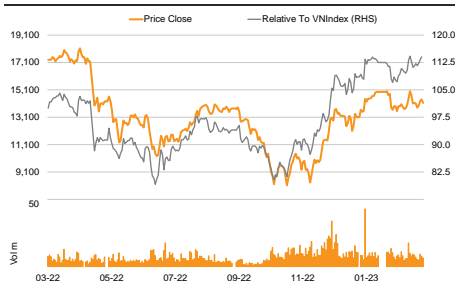
Target price / Consensus: 7%

Key changes in the report

- Increase FY23-24F net profit by 7%/8%
- Increase target price by 11%

Previous rating	ADD
Previous TP	15,700VND
Current price	VND14,750
52w high (VND)	18,131
52w low (VND)	8,131
3m Avg daily value (VNDmn)	140,876
Market cap (VNDbn)	25,418
Free float	92%
Dividend yield	0%
TTM P/E (x)	5.6x
Current P/B (x)	1.1x

Price performance



Source: VNDIRECT RESEARCH

Ownership

Vietnam Post	8.1%
Others	91.9%

Source: VNDIRECT RESEARCH

Analyst(s):



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- We forecast LPB's loan growth will moderate slightly to 12% yoy over FY23-24F from nearly 13% in FY22.
- With net interest margin (NIM) pressure and rising credit risk as key headwinds, we now forecast net profit growth will slow down to 8%/14% yoy over FY23-24F from 57% in FY22.
- Reiterate ADD with higher TP of VND17,400, driven by higher earnings.

FY23-24F outlook: solid earnings growth despite NIM/provision headwinds

Over the next 2 years, we expect LPB's credit to grow by 12% for each year and NIM to decline by 25bps to ~3.8% from ~4.0% in FY22, which was the strongest level recorded over the past 5 years. We also factor in our model the upfront fee from recent banca deal while assuming more conservative credit costs given current macro challenges. Overall, we increase our FY23-24F net profit estimates by 7-8% to VND4.9tr/5.6tr, respectively. Our revised forecasts indicate solid earnings growth of 8%/14% from high base in FY22.

Asset quality remains under control thus far

Asset quality deteriorated slightly as NPL ratio rose only by 6bps qoq and 13bps yoy to 1.5% at end-FY22. In FY22, the bank wrote off VND1.4tr (+237% yoy) of bad debts, implying write-off rate 0.6% (+42bps yoy). Nearly 70% of write-off amount occurred in 4Q22 as we think the bank took advantage of the upfront fee to write off more aggressively. Loan loss ratio (LLR) continues to be solid at 142% as of end-FY22 vs. 114% at end-FY21. We note LPB carries no corporate bonds and has very limited credit exposure to real estate developers (0.42% of total loans at end-2Q22). However, we are forecasting provision expense to remain elevated over FY23-24F at VND3.0tr/VND3.2tr, respectively, equivalent to ~1.2% of loans (vs. 1.4% in FY22).

LPB may lose its postal transaction offices after VNPost divests its stake

VNPost is scheduled to auction its 140.5m LPB shares (equivalent to an 8.1% stake) on 04/21/23. According to several news outlets, the State Bank of Vietnam has put out a circular draft indicating once VNPost reduces its stake to below 5%, LPB's postal transaction offices (PTOs) may not accept new term deposits and will have to start returning current term deposits to customers as the deposits mature. The PTOs will be closed after all current term deposits get paid back. Based on 2021 data, LPB operates 613 PTOs, a significant number, besides 76 branches and 480 normal transaction offices. We note the PTOs have long been considered as one of LPB's key competitive advantages. We do not know how much deposits run through these PTOs to gauge the full impact but we expect to hear more at the upcoming AGM.

Reiterate ADD rating with higher TP of VND17,400

LPB is now trading at only 0.9x FY23F P/B, well below its 3-year average of 1.2x. At this valuation, we continue to see long-term value in the stock. Reiterate ADD with higher TP of VND 17,400. Upside catalysts include (1) stronger-than-expected NIM and (2) private placement to foreign investors. Downside risks include (1) weaker-than-expected loan growth and (2) higher-than-expected bad debt provision.

Financial summary (VND)	12-21A	12-22A	12-23E	12-24E
Net interest income (bn)	9,017	11,900	12,618	14,102
Net interest margin	3.5%	4.0%	3.7%	3.7%
Total operating income (bn)	10,051	14,170	14,563	16,179
Total provision charges (bn)	(1,322)	(3,174)	(2,999)	(3,190)
Net profit (bn)	2,873	4,510	4,866	5,558
Net profit growth	54.3%	57.0%	7.9%	14.2%
Adjusted EPS	1,857	2,575	2,518	2,875
BVPS	12,139	13,912	16,726	19,941
ROAE	18.5%	22.1%	18.4%	17.5%

Source: VNDIRECT RESEARCH

Earnings growth to decelerate in FY23-24F

4Q22/FY22 recap: stronger NII/NFI but higher provision than our forecasts

Figure 1: 4Q22 / FY22 result comparison (VNDbn)

Profit & Loss statement	4Q22	4Q21	% yoy	3Q22	% qoq	FY22	FY21	% yoy	VND FY22F forecasts	% of VND forecasts	Comments
Net interest income	2,772	2,756	1%	3,208	-14%	11,900	9,017	32%	11,640	102%	Slightly higher than our forecast due to slightly better NIM / loan growth
Non-interest income	909	279	226%	249	265%	2,270	1,034	120%	1,889	120%	Better than our forecast likely because a portion of upfront fee from banca deal was booked in 4Q22
Operating revenue	3,681	3,035	21%	3,457	6%	14,170	10,051	41%	13,529	105%	
Operating expenses	(1,507)	(1,765)	-15%	(1,305)	15%	(5,307)	(5,090)	4%	(5,412)	98%	
Pre-provision profit	2,174	1,270	71%	2,152	1%	8,863	4,960	79%	8,117	109%	
Provision expenses	(1,306)	(435)	200%	(918)	42%	(3,174)	(1,322)	140%	(2,400)	132%	Higher than expected NPL / write-off
Pre-tax profit	867	836	4%	1,234	-30%	5,690	3,638	56%	5,718	100%	
Net profit (ex. MI)	668	645	4%	987	-32%	4,510	2,873	57%	4,516	100%	

Source: VNDIRECT Research, Company reports

Figure 2: LPB's key ratios by quarter

Key ratios	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
NII/Total Operating Income (TOI)	96%	85%	91%	78%	87%	90%	91%	91%	88%	81%	93%	75%
Non-II/TOI	4%	15%	9%	22%	13%	10%	9%	9%	12%	19%	7%	25%
NIM (annualised)	3.0%	3.0%	3.6%	3.7%	3.5%	3.6%	3.3%	4.2%	4.1%	4.3%	4.3%	3.5%
NPL	1.4%	1.6%	1.6%	1.4%	1.4%	1.3%	1.4%	1.3%	1.4%	1.4%	1.4%	1.5%
Loan-Loss-Reserves (LLR)	82%	73%	73%	90%	94%	96%	98%	114%	118%	121%	143%	142%
Credit cost (annualised)	0.0%	0.3%	0.3%	0.9%	0.5%	0.9%	0.6%	0.9%	0.6%	1.2%	1.6%	2.2%
CIR (cost-to-income)	62%	62%	58%	59%	44%	45%	54%	58%	35%	36%	38%	41%
Provision/Pre-provisioning operating profit (PPOP)	-7%	39%	13%	36%	16%	30%	26%	34%	15%	26%	43%	60%

Source: VNDIRECT Research, Company reports

Solid loan growth supported by strong funding / capital position but NIM will be challenged

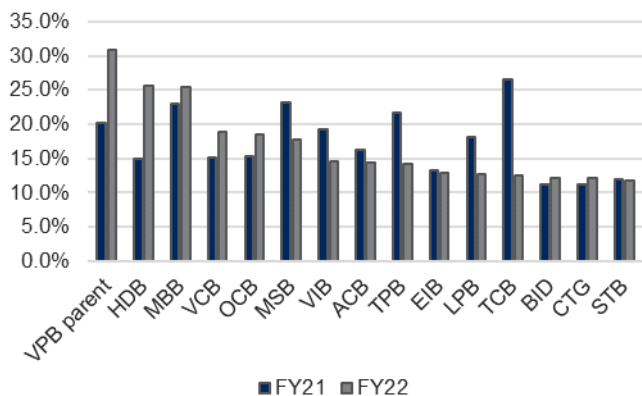
For FY22, LPB delivered 12.8% yoy growth in credit, which was below system growth of 14.5% and close to the low end of our coverage. On the funding side, customer deposit grew by 19.3% yoy, which was better than most peers in our coverage. LPB saw strong deposit growth yoy from both corporate and retail clients at 21.1% and 17.4%, respectively. At end-4Q22, retail deposits account for 65% of LPB's total deposits, which is higher than the 50% level for the whole system. Strong deposit growth continues to suggest the strength of LPB's branding and its huge physical network of branches and PTOs across the country. However, as mentioned above, the bank may lose these PTOs once VNPost divests its stake. CASA ratio declined by 1.2%pts yoy to 8.8% at end-4Q22 but improved meaningfully qoq by 2.5%pts.

For FY23-24F, we estimate LPB will deliver about 12.0% loan growth each year backed by 10.9% growth in customer deposits. There is potential that LPB may receive stronger credit quota than our current expectation considering the bank's VND3tr equity issuance and strong earnings during FY22 have helped increase its CAR towards the 13% level at end-4Q22 by our estimate. We note LPB still has plans to boost its capital base further in the near term by VND3tr via new issuance to current shareholders.

LPB managed to improve its NIM by ~40bps yoy to 4.0% in FY22 as its asset yield rose by ~10bps yoy to 8.5% and its cost of fund (COF) declined by 20bps yoy to 4.9%. The fact that LPB did not have to raise its deposit rates until late last year given its strong liquidity position also helped the bank keep its COF in check. VND3tr capital injection and VND10.5tr buyback of valuable papers before maturity during FY22 also contributed to NIM expansion. That said, we are seeing early signs of rising NIM pressure in 4Q22 as COF rose sharply by

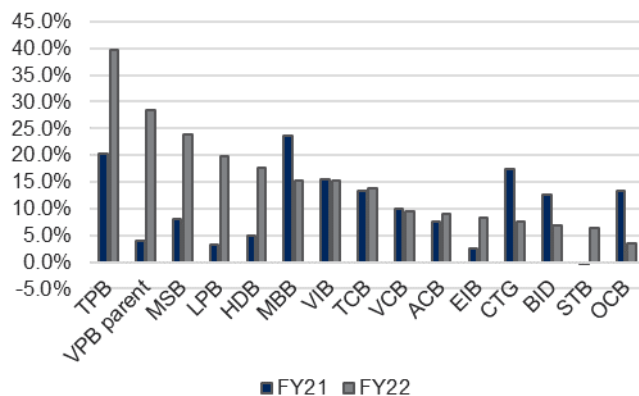
50bps qoq due to higher deposit rates and a large qoq increase in customer deposits of 11.6% vs only 3.3% qoq increase in loans. As such, for F23-24F, we estimate LPB's NIM will compress by about 25bps from FY22 level to ~3.8%.

Figure 3: LPB delivered nearly 13% credit growth in FY22, which puts the bank in the low-to-middle range in our coverage



Source: VNDIRECT Research, Company reports

Figure 4: However, LPB's deposit growth in FY22 was strong compared to most peers



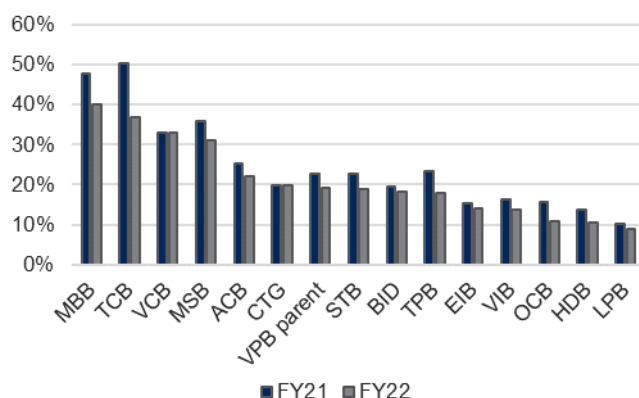
Source: VNDIRECT Research, Company reports

Figure 5: LPB managed to improve NIM by a meaningful amount in FY22 (Unit: bps)

	Asset yield	CoF	NIM
EIB	72	-36	106
STB	69	13	72
MSB	100	44	71
MBB	76	25	70
HDB	110	39	63
LPB	7	-20	38
VIB	65	52	34
OCB	63	31	34
ACB	28	3	25
VCB	16	5	24
VPB parent	40	50	20
BID	-5	-2	2
CTG	7	35	-3
TPB	7	43	-34
TCB	22	66	-41

Source: VNDIRECT Research, Company reports

Figure 6: With respect to CASA ratio, the bank remains at the low end of the spectrum in FY22



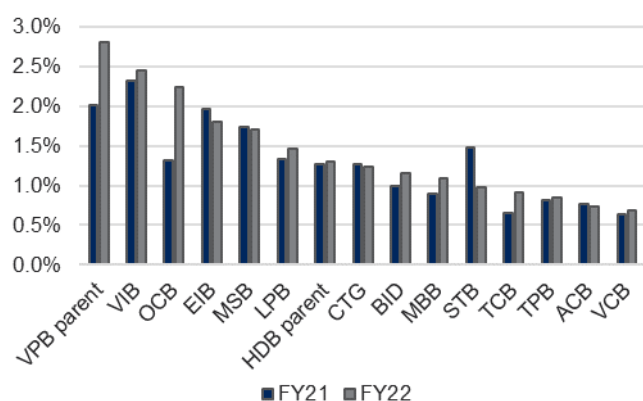
Source: VNDIRECT Research, Company reports

Asset quality remains under control thus far

Asset quality at LPB deteriorated slightly in FY22 as its NPL ratio increased by ~15bps yoy to 1.5% at end-FY22. Group 2 as % of total loans increased more meaningfully yoy by ~70bps to 1.5% at end-FY22 but was flat qoq. LLR was also flat qoq but improved yoy by 28%pts to 142%, which puts LPB at the middle range within our coverage. Stronger LLR should help the bank mitigate provision burden under adverse scenarios.

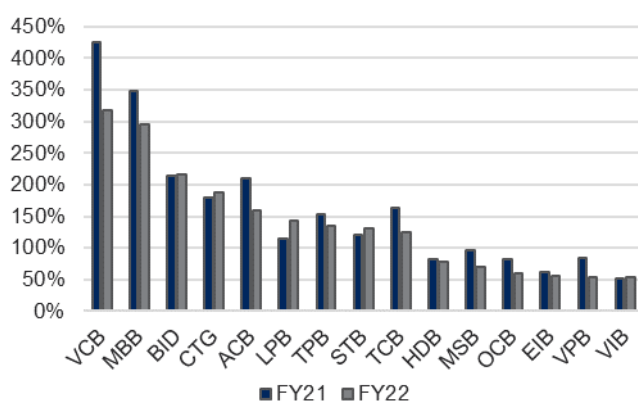
Another positive note regarding LPB's asset quality is the bank carries no corporate bonds and has low credit exposure to the real estate sector, especially the developers (only 0.42% of total loans), who are facing liquidity issues at the moment. With that being said, we do expect LPB will see more elevated credit costs over the next several quarters as Vietnam's economy goes through a rough patch. For FY23-24F, we now estimate VND3.0tr/VND3.2tr of provision expense, respectively, which equate to 1.2%/1.1% of average loans, respectively, vs. 1.4% in FY22.

Figure 7: LPB's NPL ratio is in the middle range of our coverage



Source: VNDIRECT Research, Company reports

Figure 8: ... as is the bank's LLR



Source: VNDIRECT Research, Company reports

NFI, specifically banca, is becoming a more important source of income

LPB reported 62% CAGR in NFI over the FY19-22 period vs. 30% CAGR in TOI over the same period. For FY22, NFI accounted for 12% of TOI vs. mere 6% in FY19. Banca activity has been a key driver of NFI growth for LPB. For just 6M22, banca income reached VND389bn, accounting for 75% of NFI. In comparison, banca income was only VND273bn for the full-year FY19 (69% of NFI). For the 2023-24F period, we expect growth in banca income will decline due to weaker economy affecting consumers' income and demand for life insurance as well as heightened scrutiny by regulators over banca activities.

Last November, LPB signed a new exclusive deal with Dai-ichi Life for 15 years, starting in December 2022. The bank did not disclose the upfront fee amount or how the fee will be recognized. Based on a comparison between LPB and VPB, which received VND5.5tr in upfront fee from its deal with AIA last year, we estimate LPB's upfront fee could be in the VND2.0tr range. During FY19-21, total premium and new business premium through LPB are roughly half of those through VPB. However, VPB has much larger scale and customer base than LPB so VPB likely got a premium. Therefore, we estimate LPB's upfront fee would be less than half of what VPB received. For now, we assume ~VND2.0tr to be equally recognized over a 3-year period from FY22 to FY24 in our model. Overall, we forecast annual NFI growth of over 6% for the 2023-24F period.

FY23-24F earnings forecasts revision

Figure 9: FY23-24F earnings revision (VND bn unless otherwise noted)

	Old forecasts		New forecasts		Change		Comments
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	
Net Interest Income	12,250	14,089	12,618	14,102	3.0%	0.1%	We raise our loan growth estimates slightly for FY23-24F to 12.0% from previous estimates of 11.0%
Non-Interest Income	1,533	1,751	1,944	2,077	26.8%	18.6%	We assume total upfront fee banca of VND2.0tr to be recognized equally over 3 years from FY22 through FY24
Operating revenue	13,783	15,840	14,563	16,179	5.7%	2.1%	
Operating expenses	(5,858)	(6,811)	(5,481)	(6,042)	-6.4%	-11.3%	We reduce CIR estimates given better-than-expected performance in FY22
Pre-provision profit	7,925	9,029	9,082	10,137	14.6%	12.3%	
Provision expenses	(2,192)	(2,520)	(2,999)	(3,190)	36.8%	26.6%	We take a more conservative stance on provision given higher-than-expected NPL / write-off in 4Q22 as well as current macro challenges
Pre-tax profit	5,733	6,508	6,083	6,947	6.1%	6.7%	
Net profit	4,528	5,140	4,866	5,558	7.5%	8.1%	

Source: VNDIRECT Research

Reiterate ADD with higher 1-year target price of VND17,400

At the current share price, LPB is trading at 0.9x FY23F P/B, well below its 3-year average of 1.2x. In our view, the current valuation offers attractive long-term value with stable ROE in the 17-18% range over the next several years.

Our new TP of VND17,400 is based on equal weights of residual income valuation and same target P/B of 1.0x on FY23F book value. Upside catalyst is the possibility of a private placement to foreign investor(s). Downside risks include lower-than-expected loan growth and higher-than-expected bad debts.

Figure 10: Our target price valuation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	18,036	9,018
P/BV multiple (at 1.0x FY23F BVPS)	50%	16,726	8,363
Target price (VND/share)			17,381
Target price (VND/share, rounded)			17,400

Source: VNDIRECT Research

Figure 11: Key assumptions of residual income valuation, based on our estimated

GENERAL ASSUMPTIONS	2023F	2024F	2025F	2026F	2027F	Terminal
Risk free rate (5-year VGB yield)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Long-term growth rate						3.0%
Opening shareholder's equity	24,055					
PV of RI (5 years)	4,733					
PV of Terminal value	2,399					
Implied Equity value	31,187					
No. of o/s shares (m shares)	1,729					
Implied value per share (VND/share)	18,036					

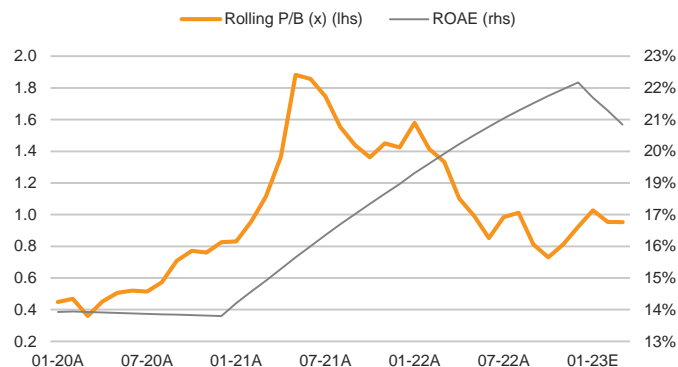
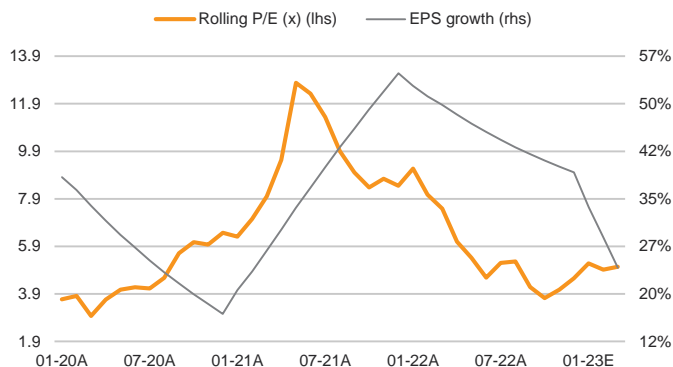
Source: VNDIRECT Research

Figure 12: Peer comparison (as at 03/22/2023)

Banks	Bloomberg Ticker	Recomm endation	Closing Price (local curr.)	Target Price (local curr.)	Market cap (US\$bn)	P/BV (x)		P/E (x)		FY21-24F				
						FY23F	FY24F	FY23F	FY24F	EPS CAGR (%)	ROE (%)		ROA (%)	
Vietcombank	VCB VN	ADD	87,400	84,600	17.4	2.6	2.2	14.4	12.6	14.3%	20.5%	19.3%	1.6%	1.6%
VietinBank	CTG VN	ADD	28,550	36,200	5.8	1.1	1.0	7.5	6.4	15.2%	16.4%	15.5%	1.0%	1.0%
Vietnam Prosperity JSC Bank	VPB VN	ADD	21,050	25,700	5.8	1.2	1.0	8.2	6.6	21.5%	16.3%	17.0%	2.8%	3.0%
Techcombank	TCB VN	ADD	26,450	44,000	3.9	0.7	0.6	3.7	3.3	16.4%	19.9%	18.7%	3.5%	3.5%
Asia Commercial JS Bank	ACB VN	ADD	24,350	30,000	3.5	1.1	0.9	5.6	5.0	19.3%	22.5%	20.1%	2.4%	2.3%
Military Commercial JSB	MBB VN	ADD	17,500	29,300	3.3	0.8	0.7	4.1	3.6	20.6%	22.5%	21.0%	2.4%	2.4%
HD Bank	HDB VN	ADD	17,700	25,000	1.9	1.0	0.8	4.9	4.1	21.7%	23.2%	22.4%	2.2%	2.2%
Vietnam International Bank	VIB VN	ADD	20,800	27,000	1.9	1.2	0.9	4.6	3.9	20.8%	29.3%	26.2%	2.6%	2.7%
Tien Phong Commercial JSB	TPB VN	ADD	21,850	31,000	1.5	0.9	0.7	5.0	4.2	19.0%	19.4%	18.9%	2.0%	2.2%
Average						1.2	1.0	6.4	5.5	18.8%	21.1%	19.9%	2.3%	2.3%
LienViet Post Bank	LPB VN	ADD	14,750	17,400	1.1	0.9	0.7	5.3	4.6	24.6%	18.4%	17.5%	1.4%	1.4%

Source: VNDIRECT Research, BLOOMBERG

Valuation



Income statement

(VNDbn)	12-22A	12-23E	12-24E
Net interest income	11,900	12,618	14,102
Non interest income	2,270	1,944	2,077
Total operating income	14,170	14,563	16,179
Total operating costs	(5,307)	(5,481)	(6,042)
Pre-provision operating profit	8,863	9,082	10,137
Total provision charges	(3,174)	(2,999)	(3,190)
Income from associates & JVs			
Net other income			
Pre-tax profit	5,690	6,083	6,947
Tax expense	(1,179)	(1,217)	(1,389)
Profit after tax	4,510	4,866	5,558
Minority interest	0	0	0
Net profit	4,510	4,866	5,558

Balance sheet

(VNDbn)	12-22A	12-23E	12-24E
Gross loans to customers	235,507	263,692	295,277
Loans to banks			
Total gross loans	235,507	263,692	295,277
Securities - total	42,574	46,083	49,882
Other interest earning assets	42,549	46,940	51,786
Total gross IEAs	320,630	356,714	396,944
Total provisions	(4,870)	(4,870)	(4,870)
Net loans to customers	230,637	258,822	290,407
Total net IEAs	315,760	351,844	392,074
Cash and deposits	2,984	3,325	3,705
Total investments	316	352	392
Other assets	8,686	9,679	10,786
Total non-IEAs	11,986	13,356	14,883
Total assets	327,746	365,200	406,957
Customer deposits	215,888	239,316	265,286
Cds outstanding	35,048	37,937	41,065
Customer interest-bearing liabilities	250,936	277,253	306,350
Bank deposits	3,077	3,077	3,077
Broad deposits	254,013	280,330	309,427
Other interest-bearing liabilities	39,702	43,819	48,364
Total IBLs	293,715	324,149	357,791
Deferred tax liability			
Other non-interest bearing liabilities	9,976	12,130	14,687
Total non-IBLs	9,976	12,130	14,687
Total liabilities	303,691	336,279	372,478
Share capital	17,291	17,291	17,291
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	3,904	8,770	14,328
Other reserves	2,860	2,860	2,860
Shareholders' equity	24,055	28,922	34,479
Minority interest	0	0	0
Total equity	24,055	28,922	34,479
Total liabilities & equity	327,746	365,200	406,957

	12-22A	12-23E	12-24E
Growth rate (yoy)			
Cust deposit growth	19.8%	10.9%	10.9%
Gross cust loan growth	12.7%	12.0%	12.0%
Net interest income growth	32.0%	6.0%	11.8%
Pre provision operating profit growth	78.7%	2.5%	11.6%
Net profit growth	57.0%	7.9%	14.2%
Growth in IEAs	14.0%	11.4%	11.4%
Share value			
Basic EPS (VND)	2,879	2,814	3,214
BVPS (VND)	13,912	16,726	19,941
DPS (VND)	0	0	0
EPS growth	38.7%	(2.2%)	14.2%

Key ratios

	12-22A	12-23E	12-24E
Net interest margin	4.0%	3.7%	3.7%
Cost-income ratio	(37.5%)	(37.6%)	(37.3%)
Reported NPLs / gross cust loans	1.5%	1.7%	1.8%
Reported NPLs / net cust loans	1.5%	1.7%	1.8%
GP charge / average cust loans	1.4%	1.2%	1.1%
Total CAR	13.2%	13.5%	13.8%
Loan deposit ratio	93.9%	95.1%	96.4%
Margins and spreads			
Return on IEAs	8.4%	9.2%	8.9%
Cost of funds	4.8%	6.0%	5.7%
Interest return on average assets	3.9%	3.6%	3.7%
ROAE	22.1%	18.4%	17.5%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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