

LIENVIET POST BANK - LPB
Add

Low credit costs supported 1Q23 earnings

FINANCIALS | Update

Target price (12M)

VND17,400

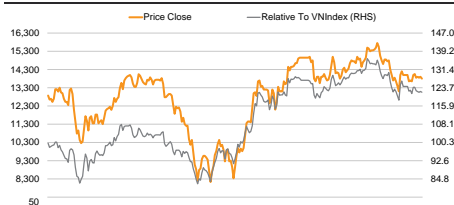
Consensus*: Add:5 Hold:0 Reduce:0

Target price / Consensus: 4%

Key changes in the report

> Lower FY23-24F provision expenses forecasts by 20%/16%, respectively

Previous rating	Add
Previous TP	17,400VND
Current price	VND13,950
52w high (VND)	15,750
52w low (VND)	8,131
3m Avg daily value (VNDmn)	132,623
Market cap (VNDbn)	24,035
Free float	92%
Dividend yied	0%
TTM P/E (x)	5.5
Current P/B (x)	1.0

Price performance


Source: VNDIRECT RESEARCH

Ownership

Vietnam Post	8.1%
Others	91.9%

Source: VNDIRECT RESEARCH

Analyst(s):

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- 1Q23 net profit (NP) declined by 12.5% yoy to VND1.2tr, fulfilling 26% of our full-year forecast.
- Given solid 1Q23 results, we maintain our FY23-24F earnings forecasts at VND4.9tr/5.6tr, respectively, which imply solid earnings growth of 8%/16% from high base in FY22.
- Reiterate ADD with unchanged TP of VND17,400.

1Q23 recap: low credit costs helped offset weaker total operating income (TOI)

LPB reported TOI and NP of VND3.1tr (-3.9% yoy) and VND1.2tr (-12.5% yoy), fulfilling 22% and 26% of our FY23F forecasts, respectively. The decline in TOI was driven by (1) a 3.5% decrease in NII due to softer net interest margin (NIM) and (2) a 6.5% decline in non-interest income due to a VND12bn net other operating loss vs. a VND191bn gain in 1Q22, partially offset by strong FX gain of VND145bn vs. a VND15bn loss in 1Q22 and a 4.0% yoy increase in net fee income (NFI). Lower TOI and a 16.6% yoy increase in operating expenses drove pre-provision operating profit (PPOP) to drop by 15.1% yoy. Importantly, credit costs declined by 28.2% yoy and 82.9% qoq, which helped buffer earnings to decline by only 12.5% yoy.

Weaker NIM as expected while credit / funding growth was decent

NIM contracted by 70bps yoy in 1Q23, driven by a 200bps yoy increase in cost of funds (COF) partially offset by a 105bps yoy increase in asset yield. Weaker NIM was not surprising considering the rapid increase in deposit rates during 4Q22. Credit to customers grew by 2.7% ytd, slightly better than industry growth at 2.1% ytd. Customer deposits growth continued to be robust at 5.3% qoq (vs. 11.6% growth in 4Q22) as customers continued to shift out of riskier assets such as stock, corporate bonds, and real estate into safer bank deposits.

Write-off stepped up in the quarter but overall asset quality remains solid

NPL inched up slightly yoy by 10bps to 1.5% but was flat qoq. Group 2 loans % increased by 50bps qoq to 2.0%, suggesting somewhat weaker asset quality but nothing alarming yet in our view. Notably, the bank wrote off VND1.2tr of bad debts in 1Q23, which was significant when compared to VND1.4tr of write-off for the entire FY22. Despite large write-off, credit costs only amounted to VND226bn or 0.4% of average loans as LPB released some of the reserve cushion it had built in FY22. As a result, loan loss ratio (LLR) declined from 142% at end-FY22 to 111% at end-1Q23.

No material changes in our FY23-24F earnings outlook

We tweak our NIM, TOI, and provision expenses lower but overall maintain our FY23-24F earnings forecasts at VND4.9tr/5.6tr. With deposit rates on the downtrend and Circular 02 helping the industry to better control NPL formation/provision, we remain comfortable that LPB can achieve our forecasts with ease.

Reiterate ADD rating with higher TP of VND17,400

LPB is now trading at only 0.8x 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	12,187	13,525
Net interest margin	3.5%	4.0%	3.6%	3.6%
Total operating income (bn)	10,051	14,170	14,200	15,726
Total provision charges (bn)	(1,322)	(3,174)	(2,413)	(2,672)
Net profit (bn)	2,873	4,510	4,861	5,626
Net profit growth	54.3%	57.0%	7.8%	15.7%
Adjusted EPS	1,857	2,575	2,515	2,911
BVPS	12,139	13,912	16,723	19,977
ROAE	18.5%	22.1%	18.4%	17.7%

Source: VNDIRECT RESEARCH

Low credit costs supported 1Q23 earnings

1Q23 recap: sharp decline in credit costs helped offset weaker TOI

Figure 1: 1Q23 result comparison (VNDbn)

Profit & Loss statement	1Q23	1Q22	% yoy	4Q22	% qoq	Previous VND FY23F forecasts	% of VND forecasts	Comments
Net interest income	2,774	2,876	-4%	2,772	0%	12,618	22%	Slightly lower than our forecast due to lower NIM partially offset by stronger loan growth
Non-interest income	360	385	-7%	909	-60%	1,944	18%	Better than our forecast due to strong FX trading gains
Operating revenue	3,134	3,260	-4%	3,681	-15%	14,563	22%	
Operating expenses	(1,344)	(1,153)	17%	(1,507)	-11%	(5,481)	25%	
Pre-provision profit	1,790	2,107	-15%	2,174	-18%	9,082	20%	
Provision expenses	(224)	(312)	-28%	(1,306)	-83%	(2,999)	7%	Lower than expected primarily due to reserve release
Pre-tax profit	1,566	1,795	-13%	867	80%	6,083	26%	Better than our forecast
Net profit (ex. MI)	1,243	1,421	-12%	668	86%	4,866	26%	

Source: VNDIRECT Research, Company reports

Figure 2: LPB's key ratios by quarter

Key ratios	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
NII/Total Operating Income (TOI)	85%	91%	78%	87%	90%	91%	91%	88%	81%	93%	75%	89%
Non-II/TOI	15%	9%	22%	13%	10%	9%	9%	12%	19%	7%	25%	11%
NIM (annualized)	3.0%	3.6%	3.7%	3.5%	3.6%	3.3%	4.2%	4.1%	4.3%	4.3%	3.5%	3.4%
NPL	1.6%	1.6%	1.4%	1.4%	1.3%	1.4%	1.3%	1.4%	1.4%	1.4%	1.5%	1.5%
Loan-Loss-Reserves (LLR)	73%	73%	90%	94%	96%	98%	114%	118%	121%	143%	142%	111%
Credit costs (annualized)	0.3%	0.3%	0.9%	0.5%	0.9%	0.6%	0.9%	0.6%	1.2%	1.6%	2.2%	0.4%
CIR (cost-to-income)	62%	58%	59%	44%	45%	54%	58%	35%	36%	38%	41%	43%
Provision/Pre-provisioning operating profit (PPOP)	39%	13%	36%	16%	30%	26%	34%	15%	26%	43%	60%	13%

Source: VNDIRECT Research, Company reports

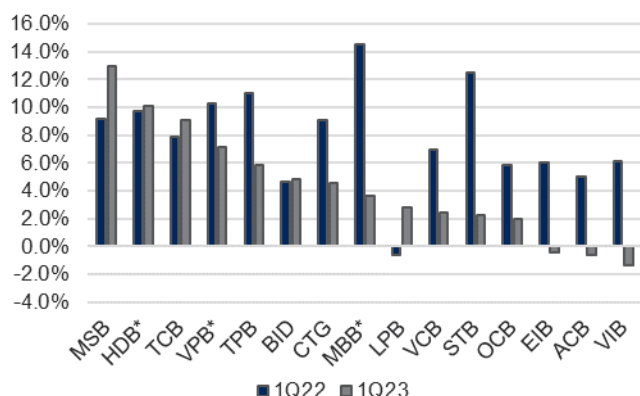
NIM weakened as expected while credit / funding growth was decent

For 1Q23, LPB delivered 2.7% qoq growth in credit, which was better than system growth of 2.1% but weaker than most peers in our coverage. On the funding side, customer deposit growth continued to be strong at 5.3% qoq (vs. +11.8% in 4Q22) as retail customers continued to shift out of riskier assets such as stock, corporate bonds, and real estate into safer bank deposits. Retail deposits grew by 17.9% qoq while corporate deposits declined by 17.7% qoq in the quarter. CASA ratio dropped by 3.5%pts yoy to 5.3% at end-1Q23, a trend seen at most banks as term deposits grew faster than CASA balance.

For FY23-24F, given better-than-expected 1Q23 loans growth, we shift our customer loans growth estimates for LPB slightly higher to about 13.0% each year from previous 12.0%, backed by 12.8% growth in customer deposits vs. previous 10.9%. There is potential that LPB may receive stronger credit quota than our current expectation considering the bank's improving CAR ratio of 12.4% level at end-FY22 (vs. 11.3% at end-FY21).

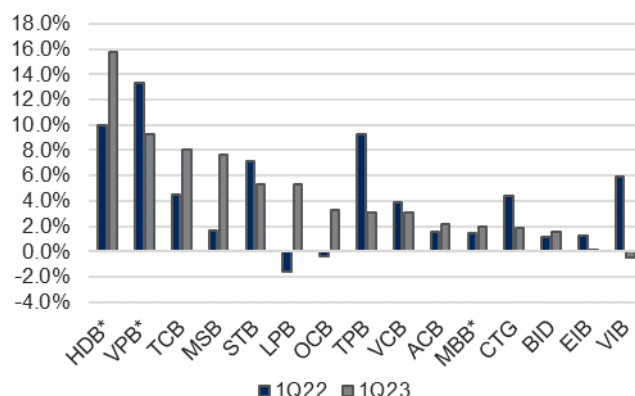
LPB's annualized NIM contracted by 70bps yoy to 3.4% (-10bps qoq) in 1Q23 as its COF increased by 200bps yoy to 6.5% while its asset yield increased only by 105bps yoy to 9.4%. NIM contraction did not come as a surprise given sharp increase in deposit rates during 4Q22 and deposit growth continuing to outpace loan growth during 1Q23. That said, bank deposit rates have been grinding lower ytd. For example, LPB's 12-month deposit rate has dropped by 80bps ytd. As such, we do expect the bank's COF and NIM to gradually improve through the remainder of this year with more notable improvement likely in the 2H. For F23-24F, we estimate LPB's NIM will compress by about 35bps from FY22 level to ~3.7% (slightly lower vs. previous ~3.8%).

Figure 3: LPB delivered nearly 3% credit growth in 1Q23, which puts the bank in the middle range in our coverage



Source: VNDIRECT Research, Company reports. *Parent bank.

Figure 4: However, LPB's deposit growth in 1Q23 was strong compared to its peers



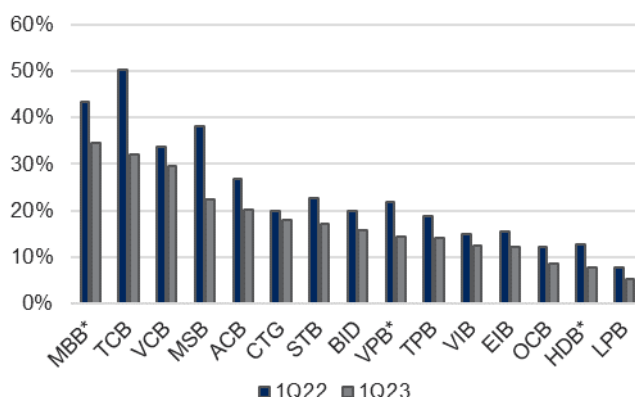
Source: VNDIRECT Research, Company reports. *Parent bank.

Figure 5: LPB's annualized NIM in 1Q23 contracted yoy as CoF rose meaningfully higher than IEA yield (Unit: bps)

Bank	Asset yield	CoF	NIM
STB	383	220	193
VIB	279	268	48
MSB	222	253	35
HDB	305	271	32
MBB	214	142	29
CTG	178	157	28
OCB	249	288	-1
ACB	192	221	-2
BID	120	149	-20
VCB	72	110	-22
EIB	171	227	-28
VPB	200	260	-50
TPB	139	207	-58
LPB	106	203	-70
TCB	89	288	-179

Source: VNDIRECT Research, Company reports

Figure 6: With respect to CASA ratio, the bank remains at the low end of the spectrum in 1Q23



Source: VNDIRECT Research, Company reports. *Parent bank.

Write-off increased sharply in 1Q23 but overall asset quality remains solid

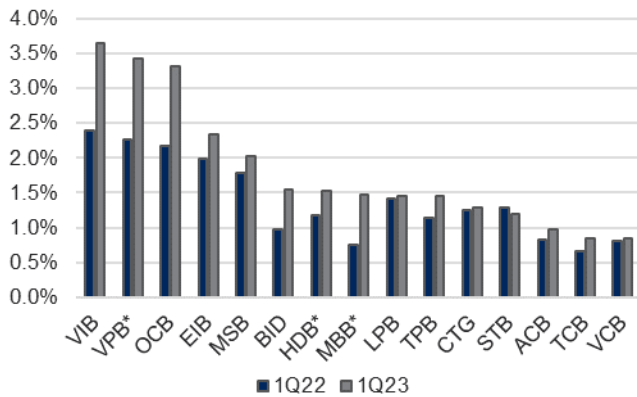
NPL inched up slightly yoy by 10bps to 1.5% but was flat qoq. This is better than most peers in our coverage which saw material increases in their NPL ratios. Group 2 loans as % of total increased by 50bps to 2.0%, suggesting somewhat weaker asset quality but nothing alarming yet in our view. The increase in Group 2 loans % is also less than what other banks experienced in 1Q23.

Notably, LPB wrote off VND1.2tr of bad debts in 1Q23 (equating to a 2.0% annualized write-off rate), which was significant compared to VND1.4tr of write-off for the entire FY22 (0.6% rate). Despite a sharp increase in write-off, credit costs only amounted to VND226bn or 0.4% of average loans in the quarter as LPB released some of the reserve cushion it had built in FY22. As a result, LLR declined from 142% at end-FY22 to 111% at end-1Q23, which is still quite solid compared to other banks under our coverage.

As highlighted in our previous works, asset quality for the banking sector is bound to deteriorate this year given falling economic activities, high interest rate, and challenges in the real estate and c-bond markets. However, LPB is well-positioned to perform better than peers in terms of asset quality as the bank carries no corporate bonds and has low credit exposure to the real estate sector.

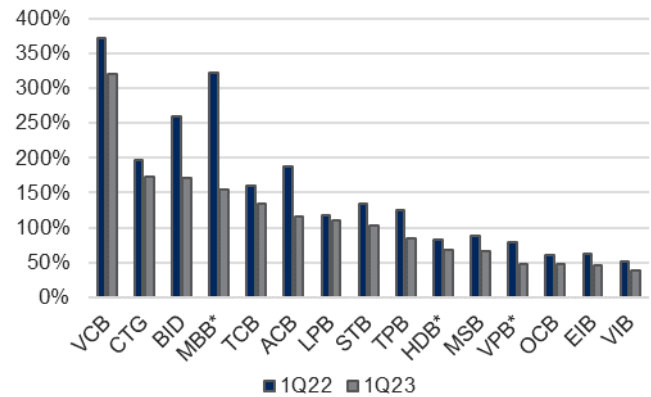
With that being said, we do expect LPB will see more elevated credit costs over the next several quarters. For FY23-24F, we now estimate VND2.4tr/VND2.7tr of provision expense, respectively, which equate to 1.0%/0.9% of average loans, respectively, vs. 1.4% in FY22. We lower our provision forecasts from previous VND3.0tr/VND3.1, respectively, to reflect reserve release in 1Q23 as well as potential benefit from Circular 2, which allows banks to restructure/maintain debt classification for loans meeting certain criteria and spread provision for such restructured loans over 2 years.

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



Source: VNDIRECT Research, Company reports. *Parent bank.

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



Source: VNDIRECT Research, Company reports. *Parent bank.

Recent changes in management and the BOD are noteworthy

In March 23, Mr. Pham Doan Son stepped down from the CEO position after 15 years at LPB. Deputy CEO Ho Nam Tien was promoted to acting CEO. We note Mr. Ho Nam Tien is also a veteran of LPB as he has been working for over 10 years at the bank since 2010, which suggests the transition should be smooth.

At the recent AGM, Mr. Nguyen Van Thuy, Mr. Ho Nam Tien (new acting CEO), Mr. Bui Thai Ha (Deputy CEO), and Mr. Le Minh Tam (independent member) were elected to join the BOD and replace Mr. Pham Doan Son (former CEO) and Mr. Duong Cong Toan. We note Mr. Nguyen Van Thuy is the younger brother of Chairman Nguyen Duc Thuy, who joined the Board in 2021 and was elected to the Chairman position in December 2022. Chairman Nguyen Van Thuy has close relationships with Xuan Thien Group, which is one of the leading renewable power developers in Vietnam, and ThaiGroup, which is a large player in the real estate and cement industries.

It is also noteworthy that shareholders have approved plans to boost the bank's capital base meaningfully this year, including 1) VND5tr new equity issuance to current shareholders and 2) VND3tr private placement to foreign investor(s).

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	12,618	14,102	12,187	13,525	-3.4%	-4.1%	Lower NIM assumed partially offset by slightly higher loan growth
Non-Interest Income	1,944	2,077	2,013	2,200	3.5%	5.9%	Stronger FX gains assumed
Operating revenue	14,563	16,179	14,200	15,726	-2.5%	-2.8%	
Operating expenses	(5,481)	(6,042)	(5,700)	(6,021)	4.0%	-0.3%	
Pre-provision profit	9,082	10,137	8,500	9,705	-6.4%	-4.3%	
Provision expenses	(2,999)	(3,190)	(2,413)	(2,672)	-19.5%	-16.2%	Lower provision expenses to reflect reserve reversal in 1Q23 and likely benefit from Circular 2
Pre-tax profit	6,083	6,947	6,088	7,033	0.1%	1.2%	
Net profit	4,866	5,558	4,861	5,626	-0.1%	1.2%	

Source: VNDIRECT Research

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

At the current share price, LPB is trading at 0.8x 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 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%	17,641	8,820
P/BV multiple (at 1.0x FY23F BVPS)	50%	17,225	8,612
Target price (VND/share)			17,433
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)	4,101					
PV of Terminal value	2,346					
Implied Equity value	30,502					
No. of o/s shares (m shares)	1,729					
Implied value per share (VND/share)	17,641					

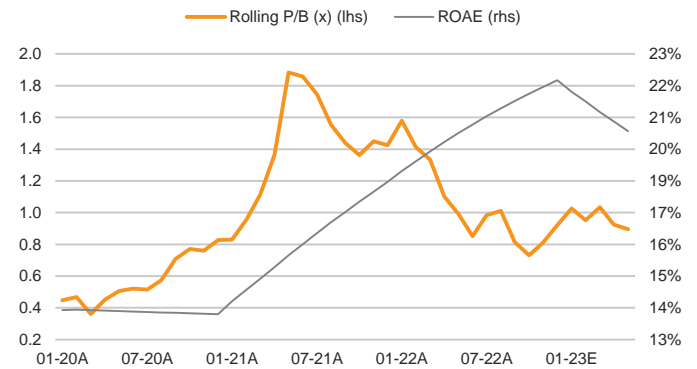
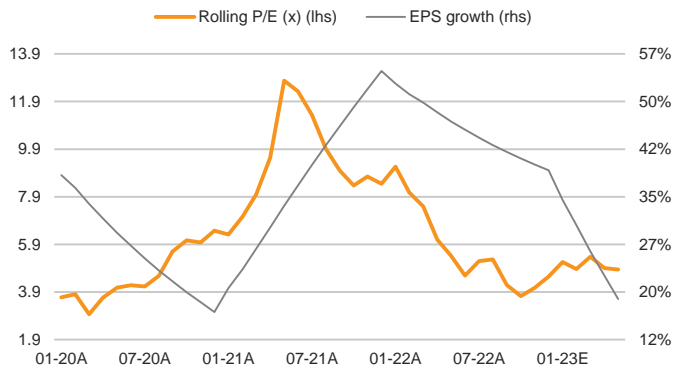
Source: VNDIRECT Research

Figure 12: Peer comparison (as at 05/25/2023)

Banks	Bloomberg Ticker	Recommendation	Closing Price (local curr.)	Target Price (local curr.)	Market cap (US\$bn)	P/BV (x) FY23F FY24F	P/E (x) FY23F FY24F	FY21-24F EPS CAGR %	ROE (%) FY23F FY24F	ROA (%) FY23F FY24F
Vietcombank	VCB VN	HOLD	93,200	84,600	18.8	2.8 2.3	15.4 13.5	14.3%	20.5% 19.3%	1.6% 1.6%
VietinBank	CTG VN	ADD	27,600	35,900	5.6	1.1 0.9	7.1 5.9	17.1%	16.2% 16.9%	1.0% 1.2%
Vietnam Prosperity JSC Bank	VPB VN	ADD	19,200	24,800	5.5	1.1 1.0	9.8 7.5	19.5%	12.0% 13.9%	1.8% 2.4%
Techcombank	TCB VN	ADD	29,800	42,000	4.5	0.8 0.7	4.8 4.1	12.1%	17.9% 17.4%	3.0% 3.0%
Asia Commercial JS Bank	ACB VN	ADD	25,100	30,000	3.6	1.2 1.0	5.4 4.7	23.1%	24.1% 22.5%	2.4% 2.4%
Military Commercial JSB	MBB VN	ADD	18,450	29,300	3.6	0.9 0.7	4.4 3.8	20.6%	22.5% 21.0%	2.4% 2.4%
HD Bank	HDB VN	ADD	19,500	25,000	2.1	1.1 0.9	5.4 4.5	22.1%	22.6% 22.5%	2.1% 2.2%
Vietnam International Bank	VIB VN	ADD	20,900	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	23,400	31,000	1.6	0.9 0.8	5.4 4.5	19.0%	19.4% 18.9%	2.0% 2.2%
Average						1.2 1.0	6.9 5.8	18.7%	20.5% 19.8%	2.1% 2.2%
LienViet Post Bank	LPB VN	ADD	13,950	17,400	1.0	0.8 0.7	5.0 4.3	25.1%	18.4% 17.7%	1.4% 1.5%

Source: VNDIRECT Research, BLOOMBERG

Valuation



Income statement

(VNDbn)	12-22A	12-23E	12-24E
Net interest income	11,900	12,187	13,525
Non interest income	2,270	2,013	2,200
Total operating income	14,170	14,200	15,726
Total operating costs	(5,307)	(5,700)	(6,021)
Pre-provision operating profit	8,863	8,500	9,705
Total provision charges	(3,174)	(2,413)	(2,672)
Income from associates & JVs			
Net other income			
Pre-tax profit	5,690	6,088	7,033
Tax expense	(1,179)	(1,227)	(1,407)
Profit after tax	4,510	4,861	5,626
Minority interest	0	0	0
Net profit	4,510	4,861	5,626

Balance sheet

(VNDbn)	12-22A	12-23E	12-24E
Gross loans to customers	235,507	266,048	300,823
Loans to banks			
Total gross loans	235,507	266,048	300,823
Securities - total	42,574	45,400	49,143
Other interest earning assets	42,549	39,173	43,197
Total gross IEAs	320,630	350,622	393,162
Total provisions	(4,870)	(3,789)	(3,789)
Net loans to customers	230,637	262,260	297,034
Total net IEAs	315,760	346,833	389,373
Cash and deposits	2,984	2,706	3,038
Total investments	316	339	380
Other assets	8,686	11,536	12,950
Total non-IEAs	11,986	14,580	16,368
Total assets	327,746	361,413	405,741
Customer deposits	215,888	243,472	274,581
Cds outstanding	35,048	40,080	43,383
Customer interest-bearing liabilities	250,936	283,552	317,965
Bank deposits	3,077	766	766
Broad deposits	254,013	284,318	318,731
Other interest-bearing liabilities	39,702	28,435	31,387
Total IBLs	293,715	312,753	350,118
Deferred tax liability			
Other non-interest bearing liabilities	9,976	19,743	21,081
Total non-IBLs	9,976	19,743	21,081
Total liabilities	303,691	332,497	371,199
Share capital	17,291	17,291	17,291
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	3,904	8,765	14,391
Other reserves	2,860	2,860	2,860
Shareholders' equity	24,055	28,916	34,542
Minority interest	0	0	0
Total equity	24,055	28,916	34,542
Total liabilities & equity	327,746	361,413	405,741

	12-22A	12-23E	12-24E
Growth rate (yoy)			
Cust deposit growth	19.8%	12.8%	12.8%
Gross cust loan growth	12.7%	13.0%	13.1%
Net interest income growth	32.0%	2.4%	11.0%
Pre provision operating profit growth	78.7%	(4.1%)	14.2%
Net profit growth	57.0%	7.8%	15.7%
Growth in IEAs	14.0%	9.8%	12.3%
Share value			
Basic EPS (VND)	2,879	2,811	3,254
BVPS (VND)	13,912	16,723	19,977
DPS (VND)	0	0	0
EPS growth	38.7%	(2.3%)	15.7%

Key ratios

	12-22A	12-23E	12-24E
Net interest margin	4.0%	3.6%	3.6%
Cost-income ratio	(37.5%)	(40.1%)	(38.3%)
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%	1.0%	0.9%
Total CAR	13.2%	13.6%	13.8%
Loan deposit ratio	93.9%	93.8%	94.6%
Margins and spreads			
Return on IEAs	8.4%	9.5%	8.9%
Cost of funds	4.8%	6.5%	5.9%
Interest return on average assets	3.9%	3.5%	3.5%
ROAE	22.1%	18.4%	17.7%

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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