

VIETCOMBANK (VCB) – EARNINGS UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND97,000	N/A	0.00%	N/A	FINANCIALS

2 August 2021

Outlook – Short term: **Positive**
Outlook – Long term: **Positive**
Valuation: **Positive**

Consensus*: Add:8 Hold:9 Reduce:0

Target price / Consensus: 4.3%

Key changes in the report

➤ N/A

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	116,400
52w low (VND)	76,400
3m Avg daily value (VNDmn)	203,068
Market cap (VND bn)	363,099
Free float (%)	8
TTM P/E (x)	19.8
Current P/B (x)	3.69

Ownership

State Bank of Vietnam	74.8%
Mizuho Corporate Bank	15.0%
GIC Private Limited	2.6%
Others	7.6%

Source: VND RESEARCH

Analyst(s):

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Softer 2Q after stellar 1Q

- 2Q21 net profit softened 14.2% yoy due to heavy provisioning and increasing cost-to-income ratio (CIR).
- Overall, 1H21 NP grew by 23.5% yoy to VND10,858bn on impressive credit growth and higher NIM, forming 49% of our full-year forecast.

2Q21 topline softened by 14.2% yoy on heavy provisioning

- 2Q21 net interest income (NII) grew by 37.3% yoy on 19.6% yoy loan growth and 3.3% NIM expansion. Non-interest income fell 32% yoy due to lower fee and commission income as the bank has applied zero fee for online transaction since February 2021. As a result, total operating income (TOI) increased by 20.1% yoy to VND12,895bn.
- Notably, 2Q21 CIR increased to 36.7% from 29.1% in 2Q20 due to higher administrative expenses.
- We observed that the bank aggressively booked VND3,225bn (73.7% yoy) in 2Q21 provision, which is 41.8% higher than that of 1Q21.

1H21 recap: moderate earnings growth, ample loan loss coverage

- 1H21 NII grew by 23.7% yoy to VND21,169bn thanks to a 19.6% yoy rise in loan balance. Credit growth recorded 9.8% ytd, higher than that of 4.9% ytd in 1H20. The State Bank of Vietnam recently lifted VCB's credit growth from 10% to 14% for FY21F, higher than our forecast.
- 1H21 assets yield softened by 52bps yoy to 5.43% due to rate cuts to aid customers affected by the Covid-19 pandemic. Meanwhile, cost of funds (CoF) fell by 93bp thanks to deposit rates cut from 1.0-1.3% yoy across all maturity spectrums. CASA ratio also climbed to 30.1% at end-2Q21 (unchanged at end-1Q21) from 26.2% at end-2Q20, being among the top 3 banks having highest CASA. As a result, 1H21 NIM increased by 37bps to 3.3% from 2.9% in 1H20.
- 1H21 cost-to-income ratio (CIR) was 33.3%, slightly lower than that of 34.9% in 1H20.
- 1H21 provision expenses increased by 37.2% yoy to VND5,500bn, leading to a spike in loan loss reserves (LLR) to 352% at end-2Q21 from 279% at end-1Q21, the highest among its peers. 2Q21 non-performing loan ratio (NPL) subdued to 0.7% from 0.9% at end-1Q21.

Maintaining earnings growth forecast of 21.5% for FY21F

- We expect FY21F NII to increase by 10.8% yoy on 14% yoy loan book rise and keep the same 2.91% yoy NIM hike. We forecast net fee income to grow by 49% yoy thanks to settlement income and strong insurance commission fee. Together with a CIR of 36% and a credit cost of 1.1%, FY21F net profit is expected to grow by 21.5% yoy to VND22,410bn.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net interest income (bn)	36,328	36,225	40,125	46,425
Net interest margin	3.3%	2.9%	2.9%	3.0%
Total operating income (bn)	49,459	48,998	59,189	71,205
Total provision charges (bn)	(8,703)	(9,917)	(9,884)	(10,292)
Net profit (bn)	19,784	18,446	22,410	28,240
Net profit growth	35.5%	(6.8%)	21.5%	26.0%
Adjusted EPS	5,334	4,974	6,042	7,614
BVPS	21,785	26,632	31,844	38,620
ROAE	27.7%	20.5%	20.7%	21.6%

SOFTER 2Q AFTER STELLAR 1Q

Figure 1: Results comparison (VNDbn unless otherwise noted)

Profit & Loss statement	2Q21	2Q20	yoy %	1Q21	qoq %	6M21	6M20	yoy%	VND FY21F forecasts	% of VND FY21F forecasts	Comments
Net interest income	11,088	8,077	37.3%	10,082	10.0%	21,169	17,111	23.7%	40,125	52.8%	In line with our forecasts.
Non-interest income	1,807	2,656	-32.0%	5,604	-67.8%	7,411	5,907	25.5%	19,063	38.9%	Lower than our forecast due to VCB's credit bonds have matured and new bonds in 2Q21, this lead to dividend income lower than we expected.
Operating revenue	12,895	10,733	20.1%	15,686	-17.8%	28,580	23,019	24.2%	59,189	48.3%	
Operation expenses	(4,731)	(3,118)	51.7%	(4,779)	-1.0%	(9,511)	(8,028)	18.5%	(21,308)	44.6%	In line with our forecasts.
Pre-provision profit	8,163	7,615	7.2%	10,906	-25.1%	19,070	14,990	27.2%	37,881	50.3%	
Provision expenses	(3,225)	(1,856)	73.7%	(2,275)	41.8%	(5,500)	(4,009)	37.2%	(9,884)	55.6%	In line with our forecasts.
Pre-tax profit	4,938	5,759	-14.2%	8,631	-42.8%	13,570	10,982	23.6%	27,996	48.5%	
Net profit	3,956	4,610	-14.2%	6,903	-42.7%	10,858	8,788	23.6%	22,410	48.5%	In line with our forecasts.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 2: VCB's key ratios by quarter

Key ratios	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Net interest income/Total operating income (TOI)	74.7%	72.2%	75.9%	73.9%	81.0%	73.5%	75.3%	75.3%	72.2%	64.3%	86.0%
Non-interest income/TOI	25.3%	27.8%	24.1%	26.1%	19.0%	26.5%	24.7%	24.7%	27.8%	35.7%	14.0%
NIM (annualized)	2.76%	3.0%	3.2%	3.2%	3.1%	3.13%	2.91%	2.93%	2.91%	3.16%	3.50%
Cost-to-income ratio (CIR)	34.65%	37.3%	36.6%	36.0%	34.6%	39.97%	29.05%	39.52%	23.83%	30.47%	36.69%
Loan-to-deposit ratio (Circular 36)	70.9%	74.8%	74.7%	71.9%	72.4%	76.4%	73.3%	74.5%	72.9%	77.3%	79.8%
Non-performing loan ratio	1.0%	1.0%	1.0%	1.1%	0.8%	0.8%	0.8%	1.0%	0.6%	0.9%	0.7%
Loan-loss-reserves (LLR)	165.4%	169.2%	177.5%	185.2%	182.0%	235.0%	254.5%	215.1%	370.4%	279.0%	351.8%
Credit cost (annualised)	1.3%	0.9%	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	1.3%	1.1%	1.2%
ROAA (trailing 12m)	1.4%	1.5%	1.6%	1.8%	1.6%	1.7%	1.7%	1.6%	1.4%	1.7%	1.6%
ROAE (trailing 12m)	25.5%	24.5%	25.4%	27.1%	25.1%	24.4%	23.5%	21.1%	20.5%	22.8%	21.1%

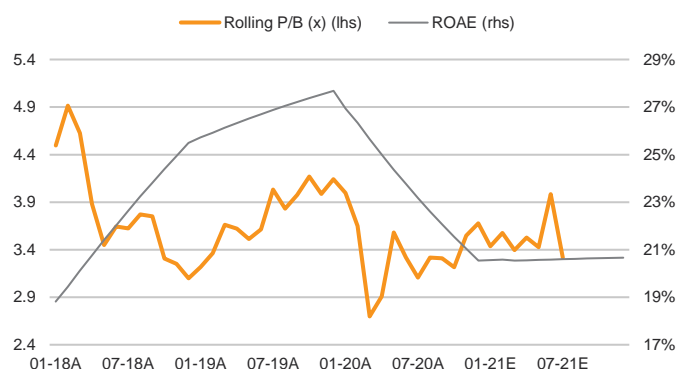
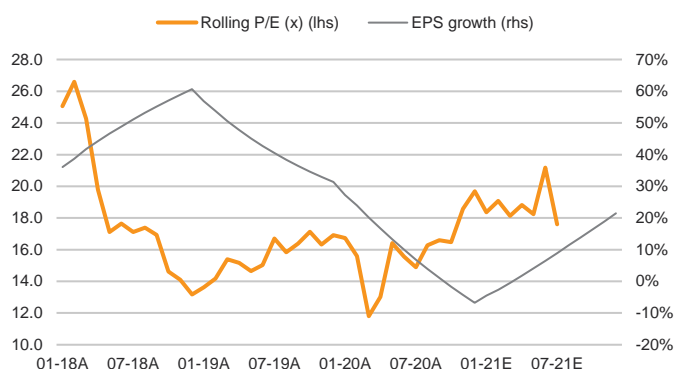
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 3: Vietnam banks comparison (price as of 02 Aug 2021)

Banks	Bloomberg Code	Recomm endation	Closing price (local curr.)	Target price (local curr.)	Market cap (US\$m)	P/B (x)		P/E (x)		3-yr Forward EPS CAGR		ROE (%)		ROA (%)	
						FY21F	FY22F	FY21F	FY22F	% FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
VietinBank	CTG VN	Add	34,400	42,000	7,128	2.0	1.7	15.3	12.2	18.2%	18.3%	19.6%	1.2%	1.4%	
Techcombank	TCB VN	Add	51,100	57,200	7,787	2.0	1.7	12.1	10.3	17.0%	18.4%	17.9%	3.2%	3.3%	
Vietnam Prosperity JSC Bank	VPB VN	Hold	60,400	75,000	6,512	1.6	1.8	10.6	11.2	25.4%	21.9%	19.0%	3.4%	2.8%	
Military Commercial Joint Stock Bank	MBB VN	Add	28,800	31,400	4,740	2.1	1.7	10.4	8.5	24.2%	21.5%	21.8%	2.1%	2.3%	
Asia Commercial Joint Stock Bank	ACB VN	Add	35,500	31,800	4,178	2.2	1.8	11.4	9.9	16.0%	22.0%	20.5%	1.9%	1.9%	
Average						2.0	1.7	12.0	10.4	20.2%	20.4%	19.8%	2.4%	2.3%	
Vietcombank	VCB VN	Add	97,000	111,400	15,704	3.0	2.5	18.9	15.0	23.8%	20.7%	21.6%	1.6%	1.8%	

Source: VNDIRECT RESEARCH, BLOOMBERG

Valuation



Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net interest income	36,225	40,125	46,425
Non interest income	12,774	19,063	24,780
Total operating income	48,998	59,189	71,205
Total operating costs	(16,037)	(21,308)	(25,634)
Pre-provision operating profit	32,961	37,881	45,571
Total provision charges	(9,917)	(9,884)	(10,292)
Income from associates & JVs			
Net other income			
Pre-tax profit	23,044	27,996	35,280
Tax expense	(4,577)	(5,560)	(7,007)
Profit after tax	18,467	22,436	28,273
Minority interest	(21)	(26)	(32)
Net profit	18,446	22,410	28,240

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Gross loans to customers	839,788	957,359	1,100,962
Loans to banks	267,774	283,841	300,871
Total gross loans	1,107,563	1,241,199	1,401,834
Securities - total	159,485	180,219	203,647
Other interest earning assets	33,139	37,447	42,316
Total gross IEAs	1,300,187	1,458,866	1,647,796
Total provisions	(19,968)	(22,750)	(27,986)
Net loans to customers	820,420	935,295	1,073,753
Total net IEAs	1,280,219	1,436,115	1,619,811
Cash and deposits	15,095	15,653	16,232
Total investments	2,236	2,318	2,404
Other assets	29,987	31,095	32,245
Total non-IEAs	47,318	49,067	50,880
Total assets	1,327,537	1,485,182	1,670,691
Customer deposits	1,032,114	1,155,967	1,306,243
Cds outstanding	21,240	22,302	23,640
Customer interest-bearing liabilities	1,053,354	1,178,269	1,329,883
Bank deposits	144,761	150,764	158,302
Broad deposits	1,198,115	1,329,033	1,488,185
Other interest-bearing liabilities	67	68	69
Total IBLs	1,198,181	1,329,101	1,488,254
Deferred tax liability			
Other non-interest bearing liabilities	30,496	37,890	39,114
Total non-IBLs	30,496	37,890	39,114
Total liabilities	1,228,678	1,366,991	1,527,368
Share capital	37,089	37,089	37,089
Additional paid-in capital	4,995	4,995	4,995
Treasury shares			
Retained earnings reserve	44,118	60,200	81,237
Other reserves	12,572	15,821	19,916
Shareholders' equity	98,774	118,106	143,238
Minority interest	85	85	85
Total equity	98,859	118,191	143,323
Total liabilities & equity	1,327,537	1,485,182	1,670,691

	12-20A	12-21E	12-22E
Growth rate (yoy)			
Cust deposit growth	11.2%	12.0%	13.0%
Gross cust loan growth	14.3%	14.0%	15.0%
Net interest income growth	(0.3%)	10.8%	15.7%
Pre provision operating profit growth	(1.3%)	14.9%	20.3%
Net profit growth	(6.8%)	21.5%	26.0%
Growth in IEAs	8.7%	12.2%	12.8%
Share value			
Basic EPS (VND)	4,974	6,042	7,614
BVPS (VND)	26,632	31,844	38,620
DPS (VND)	0	0	0
EPS growth	(6.8%)	21.5%	26.0%

Key ratios

	12-20A	12-21E	12-22E
Net interest margin	2.9%	2.9%	3.0%
Cost-income ratio	(32.7%)	(36.0%)	(36.0%)
Reported NPLs / gross cust loans	0.7%	0.8%	0.9%
Reported NPLs / net cust loans	0.8%	0.8%	0.9%
GP charge / average cust loans	1.3%	1.1%	1.0%
Total CAR	0.0%	0.0%	0.0%
Loan deposit ratio	79.7%	81.3%	82.8%
Margins and spreads			
Return on IEAs	5.6%	5.8%	5.9%
Cost of funds	2.8%	3.1%	3.2%
Interest return on average assets	2.8%	2.9%	2.9%
ROAE	20.5%	20.7%	21.6%

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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