

VIB INTERNATIONAL COMMERCIAL JSB (VIB) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND38,300	VND46,400	0.00%	Add	FINANCIALS

15 November 2021

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

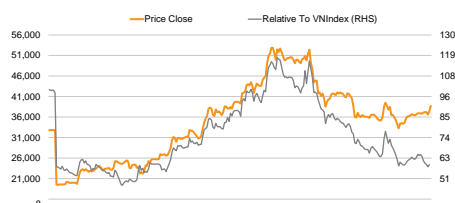
Consensus*: Add:2 Hold:3 Reduce:1

Target price / Consensus: 7.3%

Key changes in the report

- Decrease EPS FY21-23F by 5-7%
- Decrease TP by 3.7%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	52,858
52w low (VND)	19,464
3m Avg daily value (VNDmn)	52,899
Market cap (VND bn)	58,165
Free float (%)	20
TTM P/E (x)	11.9
Current P/B (x)	3.1

Ownership

Chairman & related parties	14.9%
Commonwealth Bank of Australia	20.0%
BOD members and related parties	12.9%
Others	52.2%

Source: VND RESEARCH

Analyst(s):

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Sailing against headwinds

- 3Q21 earnings dropped 17% yoy to VND1,108bn on lower bancassurance income and heavy expenses.
- 9M21 net profit grew +32.7% yoy, fulfilling only 66% of our forecasts.
- We maintain Add but lower TP to VND46,400 following a slight FY21-23F EPS downgrade.

A hiccup in 3Q21 performance

VIB's 3Q21 net interest income (NII) rose 20% yoy on 25.6% yoy credit growth but subdued 46bp yoy NIM. 3Q21 non-interest income (non-II) decreased 49.6% yoy due to a 32.7% yoy drop in fee income, mainly derived from lacklustre bancassurance business (-45.8% yoy). While 3Q21 operating revenue grew modestly 1.6% yoy, operating expenses surged 27% yoy, resulting in a higher CIR of 46.4% (vs. 37.1% of 3Q20, 35.4% of 2Q21). Provision expenses grew 12% yoy, bringing 3Q21 net profit dropped 17% yoy to VND1,108bn.

9M21 recap: bancassurance lost steam

9M21 NII grew robustly 41.8% yoy to VND8.4tr, while non-II edged up only 3.2% yoy due to the subdued bancassurance. 9M21 bancassurance income decreased 10.1% yoy due to movement restrictions during Covid-19. Credit expanded 10.8% ytd at end-3Q21 from 8.1% at-end 2Q21, lower than that of 14.2% ytd seen in 9M20. Though NIM slightly shrank in 3Q21 but still expanded 32bp yoy in 9M21 to 4.4%. Asset quality slightly deteriorated as NPL ratio headed up to 1.57% at end-3Q21 (vs 1.46% at end-FY20), thus LLR fell to 54.1% (2Q21: 63.8% & end-FY20: 58.2%). CAR inched up to 10.6% at end-3Q21 from 10.1% at end-FY20, while LDR remained healthily at 73.1% vs 78.1% at end-FY20.

We revise down our FY21-23F EPS forecast by 5-7%

We lower our FY21F earnings forecast to VND6,189bn (5% lower than our previous forecast), to reflect the lacklustre bancassurance performance. For FY22-23F, we raise our FY22/23F loan growth forecasts to 26%/23% vs. 25%/22% previously as we believe VIB is well-positioned to capture the increasing credit demand in the next 2 years. However, we trim FY22-23F NIM forecasts to 4.24%/4.21% from previous 4.45%/4.54% as the lending rates are expected to further drop in the future. Consequently, FY22-23F NP were 7.2%/7.3% lower than previous forecasts.

Reiterate Add with a lower TP of VND46,400

We adjust our 1-year target TP to VND46,400 following a FY21-23F earnings downgrade and a rollover to FY22F P/BV valuation. Our TP is based on the residual income valuation (COE: 14.3%; LTG: 3.0%) and 2.5x FY22F P/BV, weighted equally. Upside catalysts are higher-than-expected loan growth and lower CIR. Besides, downside risk would be higher-than-expected bad debt.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net interest income (bn)	8,496	11,550	14,287	17,619
Net interest margin	4.0%	4.3%	4.2%	4.2%
Total operating income (bn)	11,216	14,431	17,975	22,011
Total provision charges (bn)	(950)	(1,282)	(1,863)	(2,706)
Net profit (bn)	4,641	6,189	7,425	8,753
Net profit growth	42.1%	33.4%	20.0%	17.9%
Adjusted EPS	3,266	3,948	4,736	5,583
BVPS	11,571	15,557	20,337	25,473
ROAE	29.6%	29.4%	26.6%	24.6%

SAILING AGAINST HEADWINDS

9M21 recap: below our expectation

Figure 1: Results comparison (VND bn, otherwise noted)

FYE (VNDbn)	3Q21	3Q20	% YoY	2Q21	% QoQ	9M21	9M20	% YoY	VND	% of VND	Comments
									FY21F	FY21F	
Net interest income (NII)	2,678	2,233	19.9%	2,960	-9.5%	8,416	5,935	41.8%	11,799	71.3%	In line with our forecast Lower than our forecast due to lacklustre insurance income
Non-interest income (Non-II)	402	798	-49.6%	847	-52.6%	1,972	1,911	3.2%	3,267	60.4%	
Operating income (TOI)	3,080	3,031	1.6%	3,807	-19.1%	10,389	7,846	32.4%	15,066	69.0%	
Operating expenses	(1,429)	(1,125)	27.0%	(1,346)	6.2%	(4,135)	(3,162)	30.8%	(5,650)	73.2%	In line with our forecast
Pre-provision profit	1,652	1,907	-13.4%	2,461	-32.9%	6,254	4,684	33.5%	9,416	66.4%	
Provision expenses	(267)	(238)	12.0%	(314)	-15.0%	(915)	(660)	38.7%	(1,281)	71.4%	In line with our forecast
Pretax profit	1,385	1,668	-17.0%	2,147	-35.5%	5,339	4,025	32.7%	8,135	65.6%	
Net profit	1,108	1,335	-17.0%	1,718	-35.5%	4,272	3,220	32.7%	6,508	65.6%	Lower than our forecast mostly due to lower non-II

Source: VNDIRECT RESEARCH

Figure 2: VIB key ratios by quarters

Key ratios	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
NII/TOI	80.8%	78.6%	73.3%	74.6%	79.6%	74.5%	73.7%	76.0%	79.3%	77.7%	87.0%
Non-II/TOI	19.2%	21.4%	26.7%	25.4%	20.4%	25.5%	26.3%	24.0%	20.7%	22.3%	13.0%
NIM (annualised)	4.0%	4.1%	3.9%	3.8%	3.9%	4.0%	4.4%	4.6%	4.5%	4.6%	4.0%
Cost to Income ratio (CIR)	43.6%	39.8%	41.4%	44.2%	45.5%	39.5%	37.1%	38.7%	38.9%	35.4%	46.4%
Non-performing loan (NPL) ratio	2.5%	2.2%	2.0%	2.0%	2.2%	2.4%	2.1%	1.7%	1.7%	1.7%	2.1%
Loan-loss-reserves (LLR)	40.3%	44.0%	49.9%	50.7%	47.3%	49.8%	48.3%	58.2%	62.0%	63.8%	54.1%
Credit cost (annualised)	0.6%	0.6%	0.6%	0.5%	0.5%	0.6%	0.6%	0.7%	0.8%	0.7%	0.6%
Provision/Pre-provisioning operating profit	16.2%	13.9%	15.4%	6.9%	12.7%	17.2%	12.5%	14.0%	15.6%	12.8%	16.2%
ROAA (trailing 12 months)	1.8%	1.9%	2.1%	2.0%	2.0%	2.0%	2.1%	2.2%	2.4%	2.5%	2.2%
ROAE (trailing 12 months)	23.9%	25.6%	28.0%	27.5%	27.6%	27.6%	28.9%	30.0%	31.4%	32.8%	29.3%

Source: VNDIRECT RESEARCH

FY21-23F earnings revision

We adjust our FY21F non-II growth assumption from 20% yoy to 6% yoy, as 9M21 insurance business was weaker than expectation. As a result, FY21F earnings is lowered by 5% to VND6,189bn (+33.4% yoy).

For FY22-23F, we raise our FY22/23F loan growth forecasts to 26%/23% vs. 25%/22% previously as we believe VIB is well-positioned to capture the increasing credit demand in the next 2 years. However, we believe the lending interest rates might decrease in a couple of next quarters in order to support for the resume of business activities. Meanwhile, we see limited room for deposit rates to drop further as commercial banks need to prepare for more stringent ratio of short-term funds using for medium-and-long term loans (from 37% to 34% since Oct 22 onward). Thus FY22-23F NIM might edge down from 4.45%/4.54%) % of FY21F to 4.24%/4.21%. On the cost side, we revise FY22-23F CIR down to c.38% from previous 40% to reflect the improvement in operational efficiency. As a results, FY22-23F earnings were 7.2%/7.3% lower than previous forecasts, to VND7,425bn (+20% yoy) and VND8,573 (+18% yoy), respectively.

Figure 3: Changes in our forecasts (VND bn, otherwise noted)

FYE (VNDbn)	Old forecasts			New forecasts			Change			Comments
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	
Net interest income	11,799	15,080	18,934	11,550	14,287	17,619	-2.1%	-5.3%	-6.9%	We slightly lower our FY21-23F NII forecasts, caused by lower NIM.
Non-interest income	3,267	3,871	4,521	2,881	3,688	4,392	-11.8%	-4.7%	-2.9%	We lower our FY21F forecast due to lower-than-expect insurance income in 3Q21
Operating revenue	15,066	18,951	23,455	14,431	17,975	22,011	-4.2%	-5.2%	-6.2%	
Operating expenses	(5,650)	(7,107)	(8,678)	(5,412)	(6,831)	(8,364)	-4.2%	-3.9%	-3.6%	Lower than our previous forecast (CIR to c.38% from our previous forecast of 40%).
Pre-provision profit	9,416	11,845	14,777	9,019	11,145	13,647	-4.2%	-5.9%	-7.6%	
Provision expenses	(1,281)	(1,839)	(2,968)	(1,282)	(1,863)	(2,706)	0.1%	1.3%	-8.8%	
Pretax profit	8,135	10,005	11,808	7,737	9,281	10,941	-4.9%	-7.2%	-7.3%	
Net profit	6,508	8,004	9,447	6,189	7,425	8,753	-4.9%	-7.2%	-7.3%	
No. of outstanding shares (m)	1,553	1,553	1,553	1,553	1,553	1,553	0.0%	0.0%	0.0%	
EPS (VND/share)	4,151	5,105	6,025	3,948	4,736	5,583	-4.9%	-7.2%	-7.3%	Lower than our previous forecast driven by lower non-II and NII.

Source: VNDIRECT RESEARCH

Valuation: Reiterate Add with a lower TP of VND46,400

Our target price of VND46,400 is based on residual income valuation (COE: 14.3%; LTG: 3%) and P/BV valuation (2.5x P/BV, FY21-22F), with 50% weighting for each method.

We lower our FY21-23F EPS by 5-7% and maintain targeted P/B multiple of 2.5x and rolled over to FY22F book value. On the other hand, VIB is trading at 2.1x FY21E P/BV, equivalent to its peers of 2.1x. However, we believe the bank still deserves to trade at 2.5x P/BV thanks to (i) its potential to deliver strong loan growth (24.3% over FY21-23F) over the years, based on retail lending products i.e. mortgage and auto loans; (ii) and its capacity to deliver an average 27% ROE over FY21-23F, the highest return on capital profile under our banking coverage (c.21% over FY21-23F).

Figure 4: Residual income valuation, based on our estimates

Key assumptions	2021E	2022E	2023E	2024E	2025E	2026E	Terminal
Risk free rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Equity risk premium	11.0%	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	1.0
Cost of equity	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%
Long-term growth rate							3.0%
<i>(in VND bn, otherwise noted)</i>							
Opening shareholder's equity	22,159						
PV of RI (5 years)	17,735						
PV of Terminal value	34,610						
Implied Equity value	74,504						
No. of outstanding shares (m shares)	1,553						
Implied value per share (VND/share)	47,970						

Source: VNDIRECT RESEARCH

Figure 5: Our target price calculation

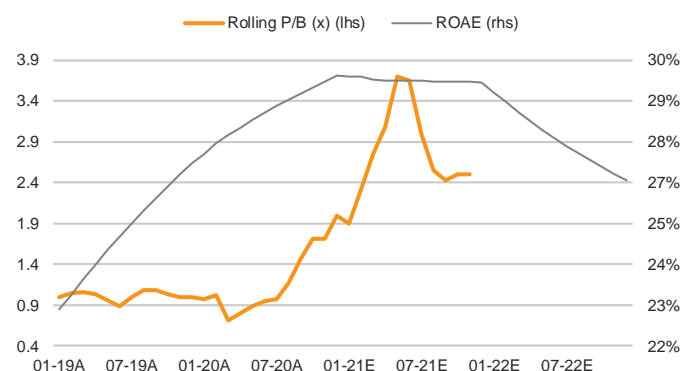
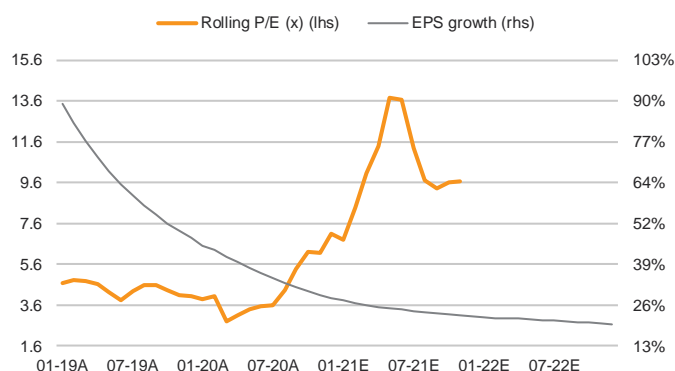
Approach	Weighting	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	47,970	23,985
P/BV multiple (at 2.5x average FY22F BV)	50%	44,867	22,434
Target price (VND/share)			46,418
Target price (VND/share, rounded)			46,400

Source: VNDIRECT RESEARCH

Figure 6: Vietnam bank comparison (price as of 12/11/2021)

Banks	Bloomberg Code	Recommendation	Price Latest	Target Price	Market cap	P/B (x)		P/E (x)		3-yr Forward CAGR EPS		ROE %		ROA %	
			(local curr.)	(local curr.)	(US\$m)	FY21F	FY22F	FY21F	FY22F	%	FY21F	FY22F	FY21F	FY22F	
Vietcombank	VCB VN	ADD	98,200	118,700	15,836	3.1	2.6	20.2	16.2	22.4%	19.7%	20.6%	1.5%	1.8%	
Techcombank	TCB VN	HOLD	53,700	57,200	8,000	2.0	1.7	12.1	10.3	17.0%	18.4%	17.9%	3.2%	3.3%	
Vietnam Prosperity JSB	VPB VN	HOLD	36,500	41,000	7,106	1.6	1.8	10.6	11.1	25.4%	21.9%	19.0%	3.4%	2.8%	
Military Commercial JSB	MBB VN	HOLD	28,100	31,400	4,705	2.1	1.7	10.4	8.5	24.2%	21.5%	21.8%	2.1%	2.3%	
Asia Commercial JSB	ACB VN	ADD	33,000	41,800	3,913	2.2	1.8	11.4	9.9	16.0%	22.0%	20.5%	1.9%	1.9%	
Tien Phong Commercial JSB	TPB VN	ADD	43,000	52,000	2,209	2.0	1.6	10.8	8.8	23.1%	21.7%	20.0%	2.1%	2.2%	
LienViet Post Bank	LPB VN	HOLD	22,900	25,700	1,198	1.6	1.4	9.4	8.7	18.6%	17.8%	17.0%	1.1%	1.2%	
Average						2.1	1.8	11.7	10.2	20.7%	21.5%	20.4%	2.2%	2.2%	
Vietnam International Commercial JSB	VIB VN	ADD	38,300	46,400	2,586	2.1	1.7	8.8	8.0	19.0%	29.4%	26.6%	2.3%	2.2%	

Source: VNDIRECT RESEARCH, BLOOMBERG

Valuation

Income statement

(VNDbn)	12-21E	12-22E	12-23E
Net interest income	11,550	14,287	17,619
Non interest income	2,881	3,688	4,392
Total operating income	14,431	17,975	22,011
Total operating costs	(5,412)	(6,831)	(8,364)
Pre-provision operating profit	9,019	11,145	13,647
Total provision charges	(1,282)	(1,863)	(2,706)
Income from associates & JVs			
Net other income			
Pre-tax profit	7,737	9,281	10,941
Tax expense	(1,547)	(1,856)	(2,188)
Profit after tax	6,189	7,425	8,753
Minority interest	0	0	0
Net profit	6,189	7,425	8,753

Balance sheet

(VNDbn)	12-21E	12-22E	12-23E
Gross loans to customers	211,900	266,994	328,403
Loans to banks			
Total gross loans	211,900	266,994	328,403
Securities - total	49,753	58,702	69,263
Other interest earning assets	37,896	49,556	64,817
Total gross IEAs	299,549	375,253	462,482
Total provisions	(2,453)	(3,403)	(4,673)
Net loans to customers	209,696	263,885	324,077
Total net IEAs	297,096	371,850	457,810
Cash and deposits	1,507	1,598	1,694
Total investments	78	83	88
Other assets	5,355	5,677	6,017
Total non-IEAs	6,941	7,357	7,799
Total assets	304,037	379,207	465,608
Customer deposits	183,440	225,631	277,526
Cds outstanding	35,699	44,623	53,548
Customer interest-bearing liabilities	219,138	270,254	331,074
Bank deposits	0	0	0
Broad deposits	219,138	270,254	331,074
Other interest-bearing liabilities	53,105	66,379	79,653
Total IBLs	272,244	336,633	410,727
Deferred tax liability			
Other non-interest bearing liabilities	7,632	10,987	15,319
Total non-IBLs	7,632	10,987	15,319
Total liabilities	279,875	347,620	426,046
Share capital	15,531	15,531	15,531
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	7,376	14,801	22,777
Other reserves	1,254	1,254	1,254
Shareholders' equity	24,162	31,587	39,563
Minority interest	0	0	0
Total equity	24,162	31,587	39,563
Total liabilities & equity	304,037	379,207	465,608

	12-21E	12-22E	12-23E
Growth rate (yoy)			
Cust deposit growth	22.0%	23.0%	23.0%
Gross cust loan growth	25.0%	26.0%	23.0%
Net interest income growth	35.9%	23.7%	23.3%
Pre provision operating profit growth	33.6%	23.6%	22.5%
Net profit growth	33.4%	20.0%	17.9%
Growth in IEAs	24.7%	25.2%	23.1%
Share value			
Basic EPS (VND)	3,985	4,781	5,635
BVPS (VND)	15,557	20,337	25,473
DPS (VND)	0	0	500
EPS growth	22.3%	20.0%	17.9%

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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