

VIB COMMERCIAL JSB (VIB) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND26,600	VND34,400	0.00%	Add	FINANCIALS

1 August 2022

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

Consensus*: Add:6 Hold:1 Reduce:0

Target price / Consensus: 4.1%

Key changes in the report

- Lower P/BV target from 2.3x to 2.0x
- Increase EPS by 5.4% over FY22-23F

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	35,554
52w low (VND)	19,250
3m Avg daily value (VNDmn)	41,752
Market cap (VND bn)	55,748
Free float (%)	20
TTM P/E (x)	7.8
Current P/B (x)	2.0

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

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Every cloud has a silver lining

- 2Q22 net profit (NP) surged 27.8% yoy to VND2.2tr thanks to a robust NII and a lower CIR. 1H22 NP grew 27% yoy, fulfilling 54% our forecast.
- We expect VIB's earnings to grow 21%/18% yoy over FY22-23F.
- Attractive valuation; upgrade to Add with unchanged TP of VND34,400.

A commendable 1H22

2Q22 NP surged 27.8% yoy given (i) a 25% yoy growth in net interest income (NII) rose 25% yoy on the back of 25.8% earning asset growth and stable NIM and (ii) lower cost-to-income ratio (CIR reduced to 33% compared to 35% in 2Q21). In 1H22, a robust NII growth (+25.7% yoy) and a better cost control has helped VIB deliver an upbeat NP growth of 27% yoy to VND4.0tr, fulfilling 54% our forecast. Asset quality was well-managed with NPL ratio of 1.7% (1.7% at end-FY21) and LLR of 54% (51% at end-FY21). The bank's restructured loans fell sharply to 0.19% of total loans (0.5% at end-FY21).

We expect VIB's loan growth to slowdown in 2H22...

VIB had a good start in 1H22 with 10% ytd loan growth (vs. 9.4% of system credit growth), higher than that of 8% in the same period last year, in which mortgage loans accounted for c.50% in total retail loans book. However, inflation pressure and the scrutiny on capital market will put a lid on credit growth in the second half of this year, especially credit into property sector. Hence, as a bank with a deep focus on mortgage, we expect that VIB will witness a slower loan growth in 2H22 to reach 18%/20% for FY22-23F, lower than our previous forecasts of 25%/23%.

... but NIM compression could be minimized

VIB's annualized NIM remained unchanged in 1H22 with 4.5%. Moving to 2H22, the rising deposit rates caused by inflation will threaten the sector's NIM in overall; but we believe VIB could partially mitigated this risk thanks to good exposure to mortgage loans. Mortgage rate has climbed up noticeably to defend with limited credit room in 2H22 and it is expected to keep increasing until 2023. Thus VIB will be able to maintain robust asset yields, partially covering the rising costs of funds to protect its NIM, in our view. We forecast VIB's FY22F NIM will stay at 4.3%, 10bps lower than the level of FY21 of 4.4% (vs. previous forecast of -30bps).

Price correction offers opportunity to ADD

In overall, we estimate VIB will deliver 21%/18% of NP growth in FY22-23F. Inflation and capital market scrutiny have cast a shadow on the banking sector and VIB is not an exception, resulting in a 24% drop in market price since its peak in Apr-2022. The price correction has strongly depressed VIB's valuation to 1.6x FY22F P/BV, nearly equal to minus 1SD range despite its strong growth and profitability. We lower the P/BV target from 2.3x to 2.0x to reflect the banking tight credit growth limit but increase the EPS by 5.4% for FY22-23F. Thus, our 1-year TP stays unchanged at VND34,400. Downside risks include higher-than-expected inflation and bad debt spike.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net interest income (bn)	8,496	11,816	14,151	17,035
Net interest margin	4.0%	4.4%	4.3%	4.3%
Total operating income (bn)	11,216	14,891	17,648	20,869
Total provision charges (bn)	(948)	(1,598)	(1,668)	(1,983)
Net profit (bn)	4,642	6,410	7,773	9,184
Net profit growth	42.1%	38.1%	21.3%	18.1%
Adjusted EPS	3,267	4,088	4,207	4,316
BVPS	11,573	15,640	14,839	19,196
ROAE	29.6%	30.3%	28.0%	25.6%

EVERY CLOUD HAS A SILVER LINING

Reiterate Add with unchanged 1-year TP of VND34,400

We still like VIB for its well-positioned in Vietnam's ongoing retail banking race. VIB has fully taken advantages of the large unbanked population, low household debt to GDP and low penetration of retail banking products in Vietnam to maximize its lending capacity to mortgage and car loans. Thanks to the strong execution on this banking model, VIB has moved up to the higher-quality growth phase with a 5-year CAGR of 28% in total assets and 62% in net profit. The bank has become the top-5 most profitable bank in FY21 with 4.4% NIM and 2.3% ROA and 30.0% ROE.

Inflation pressure and the scrutiny on capital market have posted some big concerned on the banking sector outlook in the past few months. As a consequence, the banking sector has dropped 19% since its peak in Apr-2022 and VIB has recorded a 24% drop in its market price in the same period. However, we still believe that VIB will maintain its solid fundamentals with strong growth and profitability in the next three years (ROE of 28-30% over FY22-24F); and the bank's FY22F P/BV is only 1.6x – nearly equivalent to minus 1SD range. This implies an attractive valuation and thus a good entry point for investors to accumulate more, in our view.

We maintain our 1-year target price for VIB, which is VND34,400, following an increase +5.4% FY22-23F EPS and P/BV multiple of 2.0x. Noted that we have lowered the P/BV target for VIB from 2.3x to 2.0x to to reflect the banking tight credit growth limit but increase the EPS by 5.4% for FY22-23F. Our 1-year TP is based on residual income valuation (COE: 14.6%; LTG: 3.0%) and P/BV approach, weighting equally.

Upside catalyst will be a better-than-expect NIM. Downside risks include (i) higher-than-expected inflation causing a lower credit growth and (ii) higher-than-expected bad debt.

Figure 1: Residual income valuation, based on our estimates

Key assumptions	2022E	2023E	2024E	2025E	2026E	Terminal
Risk free rate	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%
Beta	1.1	1.1	1.1	1.1	1.1	1.1
Cost of equity	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%
Long-term growth rate						3.0%
<i>(in VND bn, otherwise noted)</i>						
Opening shareholder's equity	24,291					
PV of RI (5 years)	16,538					
PV of Terminal value	32,078					
Implied Equity value	72,907					
No. of outstanding shares (m shares)	2,108					
Implied value per share (VND/share)	34,590					

Source: VNDIRECT Research

Figure 2: Target price calculation, based on our estimates

Approach	Weighting	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	34,643	17,322
P/BV multiple (at 2x FY22F BV)	50%	34,175	17,087
Target price (VND/share)			34,409
Target price (VND/share, rounded)			34,400

Source: VNDIRECT Research

Figure 3: Vietnam bank comparison (price as of 29/07/2022)

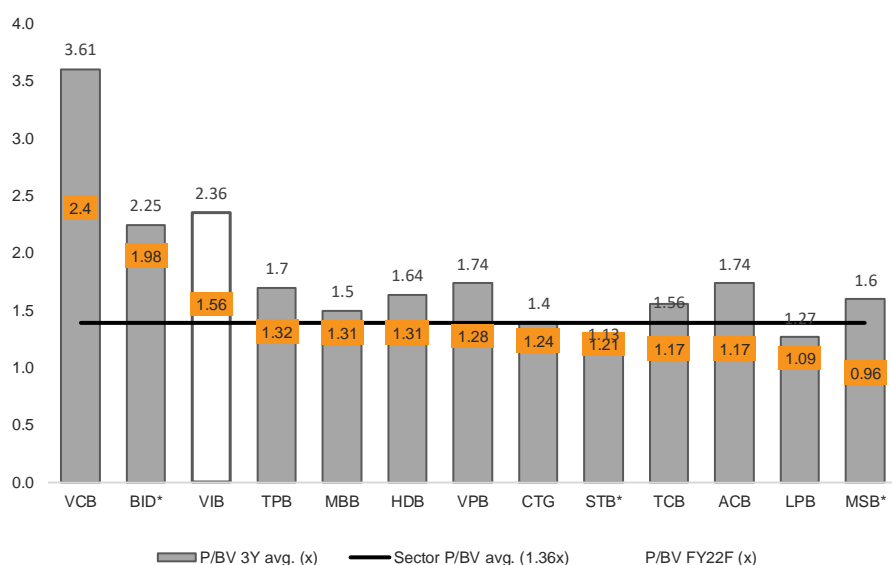
Banks	Bloomberg Code	Recomm endation	Price Latest	Target Price	Market cap (US\$bn)	P/B (x)			P/E (x)			3-yr Forward CAGR		ROE %		ROA %	
						Current	FY22F	FY23F	T12M	FY22F	FY23F	EPS %	FY22F	FY23F	FY22F	FY23F	
Vietcombank	VCB VN	ADD	74,700	95,600	15.1	2.8	2.3	2.0	14.0	11.5	10.6	20.8%	20.0%	20.9%	1.7%	1.8%	
Vietnam Prosperity JSB	VPB VN	ADD	28,700	44,900	5.5	1.4	1.2	1.0	7.6	5.5	6.1	24.5%	17.6%	18.3%	2.5%	2.6%	
Vietinbank	CTG VN	ADD	27,200	40,600	5.6	1.3	1.2	1.0	10.6	9.9	8.3	16.3%	16.3%	16.9%	1.0%	1.1%	
Techcombank	TCB VN	ADD	37,900	66,400	5.7	1.3	1.1	0.9	6.6	5.5	4.6	20.6%	22.1%	21.6%	3.6%	3.7%	
Military Commercial JSB	MBB VN	ADD	25,650	40,800	4.1	1.5	1.2	1.0	7.1	6.0	5.0	21.7%	24.5%	24.1%	2.5%	2.6%	
Asia Commercial JSB	ACB VN	ADD	24,600	35,400	3.6	1.6	1.1	0.9	7.1	5.4	4.5	17.1%	23.6%	22.4%	2.1%	2.1%	
Vietnam International Commercial JSB	VIB VN	ADD	26,600	34,400	2.4	2.0	1.6	1.3	7.8	6.0	5.8	19.3%	28.0%	25.6%	2.3%	2.2%	
Tien Phong Commercial JSB	TPB VN	ADD	26,600	41,100	1.8	1.5	1.3	1.0	7.6	6.8	5.5	23.0%	20.9%	21.1%	1.9%	2.1%	
HDBank	HDB VN	ADD	24,150	35,900	2.1	1.6	1.3	1.0	7.5	6.2	4.9	21.5%	23.6%	23.6%	2.0%	2.0%	
LienViet Post Bank	LPB VN	ADD	15,200	21,300	1.0	1.0	0.9	0.8	4.7	5.3	4.9	26.8%	17.8%	18.8%	1.1%	1.2%	
Average						1.6	1.3	1.1	8.1	6.8	6.0	21.2%	21.4%	21.3%	2.1%	2.1%	

Source: VNDIRECT Research

Figure 4: Most of Vietnam banks are trading below its 3Y average P/BV

Data as of 29/07/2022

(*) stands for Bloomberg consensus



Source: Bloomberg, VNDIRECT Research

1H22 recap: fairly better than our expectation

Figure 5: 2Q22 & 1H22 results comparison (VNDbn, otherwise noted)

FYE (VNDbn)	2Q22	2Q21	% yoy	1H22	1H21	% yoy	VND FY22F forecasts	% of VND forecasts	Comments
Net interest income (NII)	3,700	2,960	25.0%	7,215	5,738	25.7%	13,348	54.1%	Slightly higher than our forecasts
Non-interest income (Non-II)	909	847	7.3%	1,529	1,571	-2.6%	3,931	38.9%	Lower than our forecast due to lacklustre investment incomes
Operating income (TOI)	4,609	3,807	21.1%	8,745	7,309	19.7%	17,279	50.6%	
Operating expenses	(1,501)	(1,346)	11.5%	(2,961)	(2,707)	9.4%	(6,220)	47.6%	Lower CIR of 34% vs. 37% in 1H21
Pre-provision profit	3,107	2,461	26.3%	5,784	4,602	25.7%	11,059	52.3%	
Provision expenses	(363)	(314)	15.7%	(761)	(648)	17.4%	(1,852)	41.1%	Lower than our forecasts
Pretax profit	2,744	2,147	27.8%	5,023	3,954	27.0%	9,207	54.6%	
Net profit	2,195	1,718	27.8%	4,018	3,164	27.0%	7,366	54.6%	Slightly higher than our forecasts

Source: VIB, VNDIRECT Research

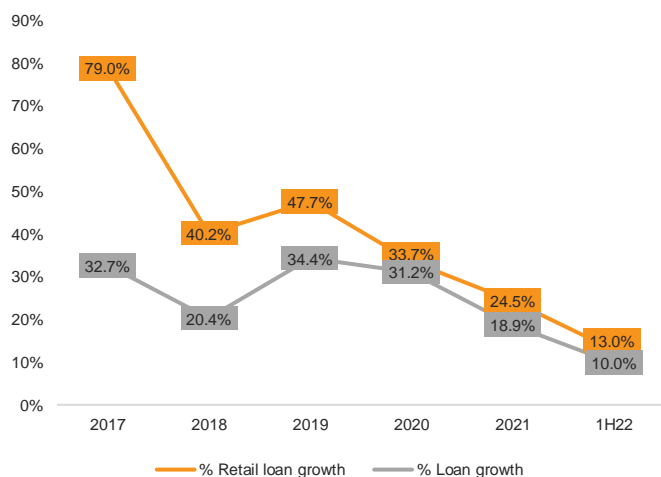
Figure 6: VIB key ratios by quarters

Key ratios	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
NII/TOI	79.6%	74.5%	73.7%	76.0%	79.3%	77.7%	87.0%	75.5%	85.0%	80.3%
Non-II/TOI	20.4%	25.5%	26.3%	24.0%	20.7%	22.3%	13.0%	24.5%	15.0%	19.7%
NIM (annualised)	3.9%	3.9%	4.1%	4.0%	4.5%	4.5%	4.4%	4.4%	4.5%	4.6%
Cost to Income ratio (CIR)	45.5%	39.5%	37.1%	38.7%	38.9%	35.4%	46.4%	25.5%	35.3%	32.6%
Non-performing loan (NPL) ratio	2.2%	2.4%	2.1%	1.7%	1.7%	1.7%	2.1%	2.3%	2.4%	2.4%
Loan-loss-reserves (LLR)	47.3%	49.8%	48.3%	59.1%	62.0%	63.8%	54.1%	51.4%	51.8%	54.1%
Credit cost (annualised)	0.5%	0.6%	0.6%	0.6%	0.8%	0.7%	0.7%	0.9%	0.8%	0.7%
Provision/Pre-provisioning operating profit	12.7%	17.2%	12.5%	14.0%	15.6%	12.8%	16.2%	20.4%	14.8%	11.7%
ROAA (trailing 12 months)	2.0%	2.0%	2.1%	2.2%	2.4%	2.5%	2.2%	2.3%	2.3%	2.3%
ROAE (trailing 12 months)	27.6%	27.6%	28.9%	30.0%	31.4%	32.8%	29.3%	30.6%	30.1%	29.8%

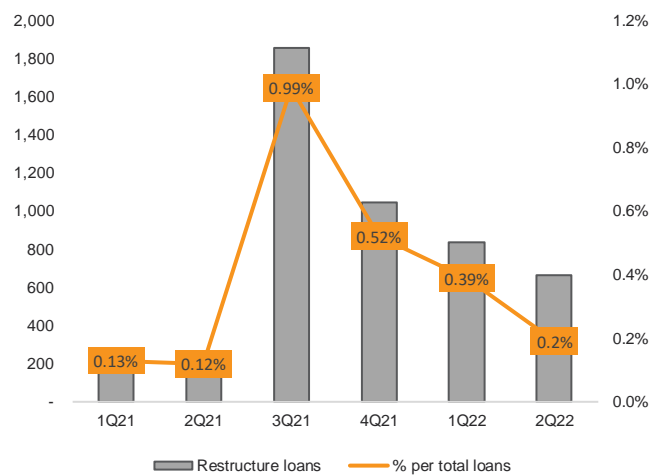
Source: VIB, VNDIRECT Research

Credit growth slowdown in 2Q22

At end-2Q22, loan balance grew steadily 10% ytd (better than the system credit of 9.4%), higher than that of 8% of the same period last year. Retail lending balances expanded 13% ytd to VND197tr, making up 89% in loan mix. VIB's 1Q22 loan growth was 6.3% and it actually has been slowed down in 2Q22. Since the beginning of 2Q, most of the banks, including VIB, have faced the limited credit growth quota as inflation risk has been recognized and the scrutiny on capital market has been executed.

Figure 7: VIB's loan growth (%)


Source: VIB, VNDIRECT Research

Figure 8: Rescheduled loans fall sharply at end 2Q22 (VNDbn; %)


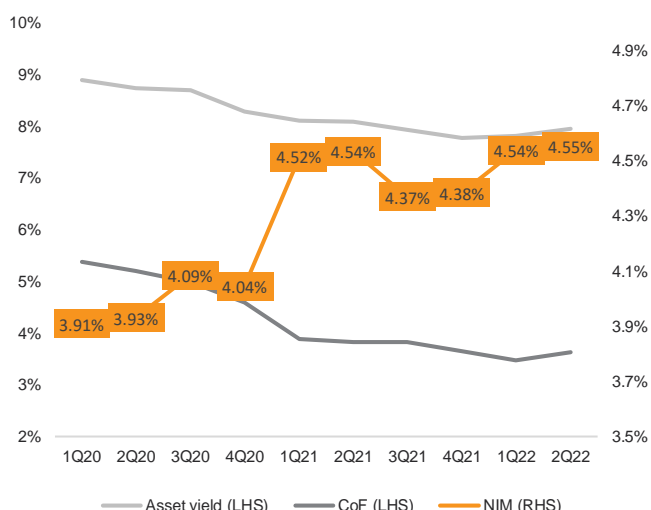
Source: VIB, VNDIRECT Research

A 2 times higher interbank loan balances. VIB has joined in interbank market (interbank loans made up 17% in the bank's earning asset vs. 9% at end-FY21 and 1% during FY16-20). At end-2Q22, VIB's interbank loan balances soared 2 times compared to 2021 to reach VND57tr. However, VIB is a net-borrower in the interbank market; thus it could be negatively impacted in 2H22 by the rising interbank rate. We emphasized that Vietnam interbank rate will not stay at low level and it will start to increase in 2H22 onwards as a consequence of global rate hikes and inflation pressure.

NIM stayed stable at 4.55% in 1H22

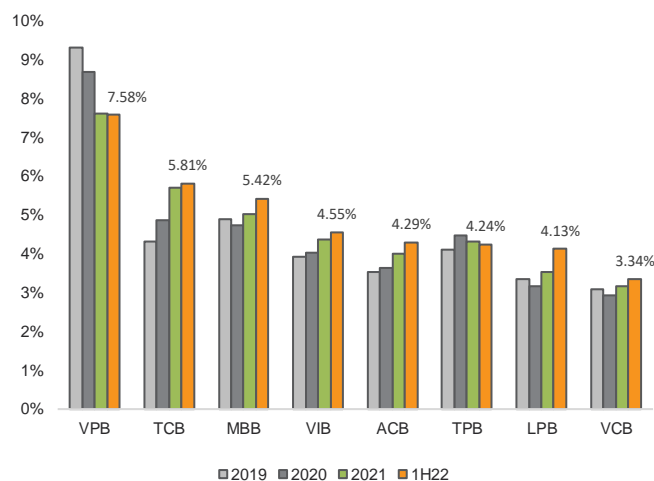
The bank's asset yield dropped 14bps yoy as the bank has reduced lending rates to support the pandemic-hit clients while cost of funds declined 18bps yoy given historical low deposit rate. Noted that, during 1H22, VIB still have an abundant liquidity (LDR of 71% at end-2Q22 vs. 85% of regulatory threshold); Combining with a slower loan growth in 2Q22, the bank therefore did not have any further demand for funds raising. This led to a relatively low deposits rate at that period.

Figure 9: VIB's annualized NIM performance



Source: VIB, VNDIRECT Research

Figure 10: Annualized NIM among banks



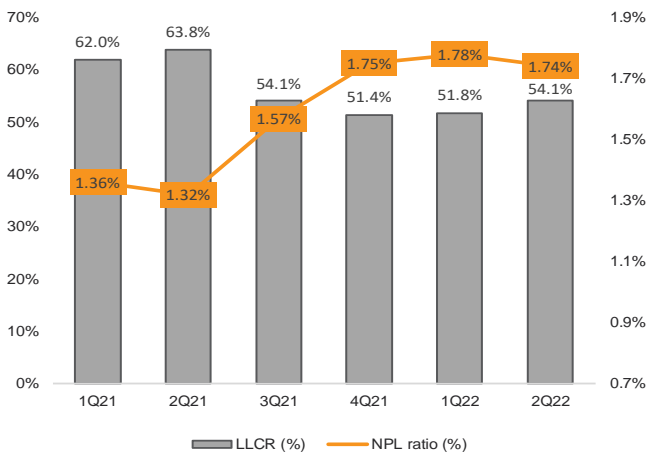
Source: Commercial banks, VNDIRECT Research

Asset quality has been well-controlled

Provisioning charges grew 17.4% yoy (credit-cost reduced to 0.7% from 0.9% in FY21). NPLs rose 16.2% ytd and an NPL ratio of 1.7% at end-2Q22 (1.7% at end-FY21); LLR was 54.1% at end-2Q22 (51.4% at end-FY21). As a high risk-appetite bank, VIB's asset quality normally looks "riskier" than other banks like MBB, TCB, ACB... (figure 13 & 14); however it is just a specific characteristic of this banking model and actually VIB has improved its asset quality strongly during quarters (figure 11 & 12).

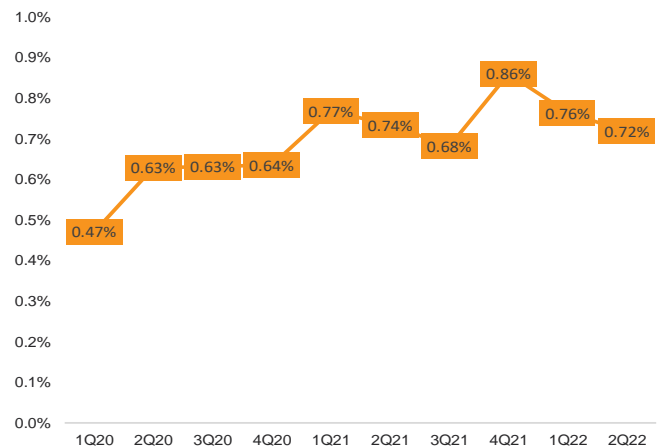
- Group-2 loans was VND6.2tr (+18% ytd), accounting for 2.8% of total loans (vs. 2.6% at end-FY21).
- Restructured loans (under C.03) was VND0.7tr at end-2Q22, or 0.19% of outstanding loans (vs. 0.5% at end-FY21, equivalent to VND1tr).

Figure 11: Asset quality is still well-manageable



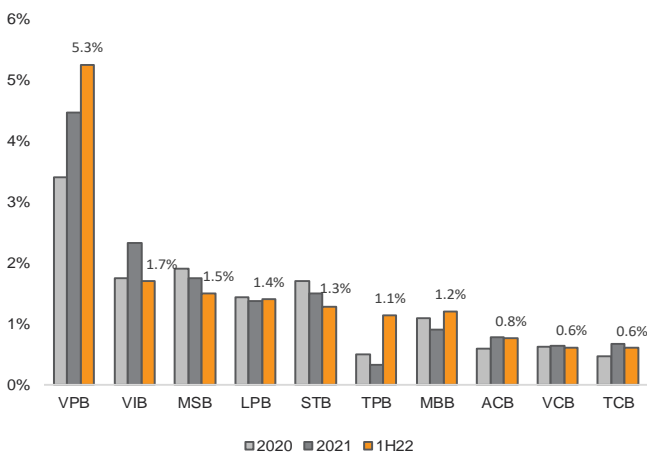
Source: VIB, VNDIRECT Research

Figure 12: Annualized credit cost is trending down



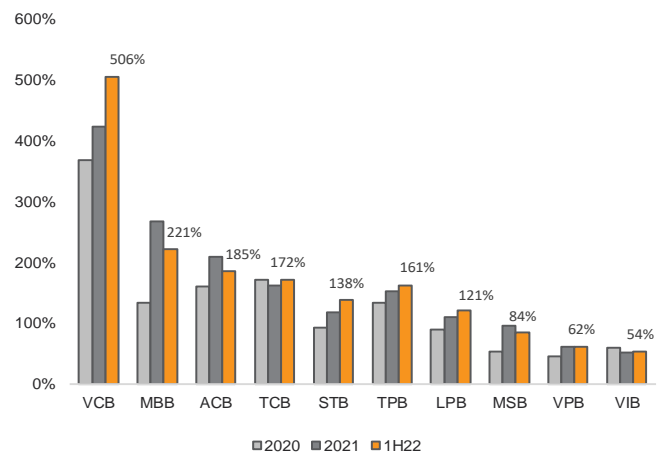
Source: VIB, VNDIRECT Research

Figure 13: VIB still stays at the top highest NPL ratio among banks



Source: Commercial banks, VNDIRECT Research

Figure 14: ...and top lowest LLR ratio among banks



Source: Commercial banks, VNDIRECT Research

We fine-tune our FY22-23F earnings forecasts

The bank’s deeply focus on retail lending products, especially mortgage and car loans, will enable it to tap on the rising retail loan demand in the next 2 years. However, the bank will not be able to proceed its lending activities aggressively, especially in 2H22, as credit growth has been limited to tackle with inflation – a top-in-mind risk now. Therefore, we expect VIB will slow down its loan growth in 2H22 compared with 1H22 to reach a 18%/20% in FY22-23F (vs. previous forecasts of 25%/23%).

The rising deposit rates caused by inflation will threaten the sector’s NIM in overall. However, we see some positive signs for VIB to maintain robust NIM as being beneficial from good exposure to mortgage loans, although the bank do not have high CASA mix to optimize its costs of funds. To explain, system credit has expanded greatly 9.4% ytd, but inflation risk and the scrutiny on Vietnam capital market will put a lid on credit growth in the second half of this year, especially credit flows into property sector. To defend with this limited credit room, mortgage rate has climbed up noticeably and it is expected to keep increasing until at least 2023. As deeply focusing on mortgage and car loans

(c.90% of total loans), VIB will be able to maintain good asset yield, partially covering the rising costs of funds in 2H22 to prevent its NIM from strong compression. We forecast VIB's NIM will be 4.3%, 10bps lower than the level of FY21 (previous forecasts of -30bps).

We expect fee income to keep its strong growth momentum of 15%/10% yoy in FY22-23F, driven by payment services and bancassurance.

We expect FY22-23F credit-cost rate to reach c.0.8% (0.9% in FY21). Its provisions will increase 4%/18% in FY22-23F. Noted that VIB's asset quality is still noticeable as being a risk-appetite banking model with a relatively low LLR (51% at end-FY21 vs. 171% of peers' average) and high NPL ratio (1.7% at end-FY21 vs 1.3% of peers' average).

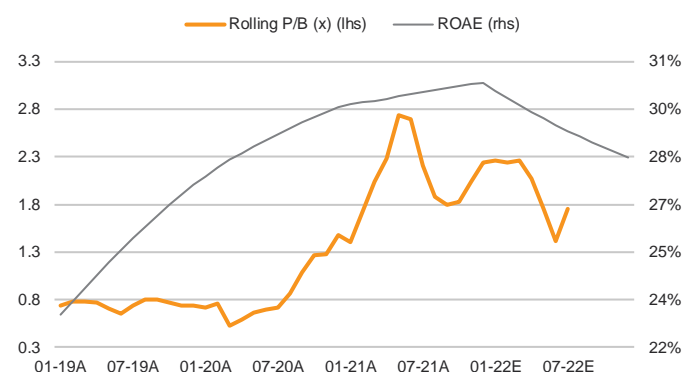
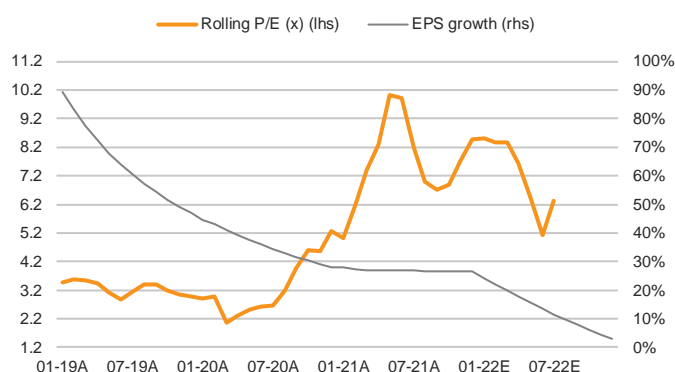
In conclusion, we estimate VIB's net profit to grow 21%/18% yoy in FY22-23F, reaching VND7.8tr and VND9.2tr, respectively.

Figure 15: Changes in our FY22-24F forecasts (VNDbn, otherwise noted)

FYE (VNDbn)	Old forecasts			New forecasts			Change			Comments
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	
Net interest income	11,799	13,348	16,133	14,151	17,035	20,618	6.0%	5.6%	3.9%	We slightly increase our NII forecasts thanks to better NIM
Non-interest income	3,267	3,931	4,312	3,497	3,835	4,205	-11.0%	-11.1%	-11.1%	We lower our forecasts due to lower investment income
Operating revenue	15,066	17,279	20,445	17,648	20,869	24,823	2.1%	2.1%	1.0%	
Operating expenses	(5,650)	(6,220)	(7,360)	(6,265)	(7,409)	(8,812)	0.7%	0.7%	-0.4%	
Pre-provision profit	9,416	11,059	13,085	11,383	13,461	16,011	2.9%	2.9%	1.8%	
Provision expenses	(1,281)	(1,852)	(2,199)	(1,668)	(1,983)	(2,431)	-10.0%	-9.8%	-7.7%	We lower our provision forecasts as a result of better credit cost
Pretax profit	8,135	9,207	10,886	9,715	11,478	13,580	5.5%	5.4%	3.7%	
Net profit	6,508	7,366	8,710	7,773	9,184	10,866	5.5%	5.4%	3.7%	

Source: VNDIRECT Research

Valuation



Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net interest income	11,816	14,151	17,035
Non interest income	3,075	3,497	3,835
Total operating income	14,891	17,648	20,869
Total operating costs	(5,282)	(6,265)	(7,409)
Pre-provision operating profit	9,609	11,383	13,461
Total provision charges	(1,598)	(1,668)	(1,983)
Income from associates & JVs			
Net other income			
Pre-tax profit	8,011	9,715	11,478
Tax expense	(1,601)	(1,942)	(2,294)
Profit after tax	6,410	7,773	9,184
Minority interest	0	0	0
Net profit	6,410	7,773	9,184

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Gross loans to customers	201,517	237,790	285,348
Loans to banks			
Total gross loans	201,517	237,790	285,348
Securities - total	44,757	51,466	59,182
Other interest earning assets	52,876	70,905	94,975
Total gross IEAs	299,149	360,161	439,504
Total provisions	(2,420)	(3,073)	(4,048)
Net loans to customers	199,116	234,974	281,595
Total net IEAs	296,729	357,087	435,455
Cash and deposits	1,522	1,582	1,646
Total investments	72	75	78
Other assets	11,194	11,641	12,107
Total non-IEAs	12,788	13,299	13,831
Total assets	309,517	370,387	449,287
Customer deposits	173,565	208,278	252,016
Cds outstanding	42,298	44,413	53,296
Customer interest-bearing liabilities	215,863	252,691	305,312
Bank deposits	0	0	0
Broad deposits	215,863	252,691	305,312
Other interest-bearing liabilities	64,529	80,643	96,757
Total IBLs	280,392	333,334	402,069
Deferred tax liability			
Other non-interest bearing liabilities	4,834	5,775	6,757
Total non-IBLs	4,834	5,775	6,757
Total liabilities	285,226	339,109	408,826
Share capital	15,531	21,077	21,077
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	6,971	9,198	18,382
Other reserves	1,788	1,001	1,001
Shareholders' equity	24,291	31,277	40,461
Minority interest	0	0	0
Total equity	24,291	31,277	40,461
Total liabilities & equity	309,517	370,387	449,287

	12-21A	12-22E	12-23E
Growth rate (yoy)			
Cust deposit growth	15.4%	20.0%	21.0%
Gross cust loan growth	18.9%	18.0%	20.0%
Net interest income growth	39.1%	19.8%	20.4%
Pre provision operating profit growth	42.3%	18.5%	18.3%
Net profit growth	38.1%	21.3%	18.1%
Growth in IEAs	24.6%	20.3%	21.9%
Share value			
Basic EPS (VND)	4,127	4,247	4,357
BVPS (VND)	15,640	14,839	19,196
DPS (VND)	0	0	0
EPS growth	26.6%	2.9%	2.6%

Key ratios

	12-21A	12-22E	12-23E
Net interest margin	4.4%	4.3%	4.3%
Cost-income ratio	(35.5%)	(35.5%)	(35.5%)
Reported NPLs / gross cust loans	2.3%	2.3%	2.3%
Reported NPLs / net cust loans	2.3%	2.3%	2.3%
GP charge / average cust loans	0.9%	0.8%	0.8%
Total CAR	11.7%	11.9%	12.3%
Loan deposit ratio	93.4%	94.1%	93.5%
Margins and spreads			
Return on IEAs	7.8%	8.0%	8.1%
Cost of funds	3.7%	4.0%	4.1%
Interest return on average assets	4.3%	4.2%	4.2%
ROAE	30.3%	28.0%	25.6%

Source: VND RESEARCH

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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.
<i>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.</i>	
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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