

Vietnam

November 5, 2018 - 11:40 AM

ADD (no change)

Consensus ratings*: Buy 6 Hold 1 Sell 0

Current price:	VND21,000
Target price:	VND32,500
Previous target:	VND32,500
Up/downside:	54.8%
CGS-CIMB / Consensus:	-15.2%
Reuters:	VPB.HM
Bloomberg:	VPB VN
Market cap:	US\$2,212m
	VND51,591,716m
Average daily turnover:	US\$4.77m
	VND111,073m
Current shares o/s	2,457m
Free float:	72.7%

*Source: Bloomberg

Key financial forecasts

	Dec-18F	Dec-19F	Dec-20F
Net Profit (VNDb)	8,116	9,439	11,149
Core EPS (VND)	3,327	3,785	4,407
Core EPS Growth	23.1%	13.8%	16.4%
FD Core P/E (x)	6.31	5.55	4.77
Recurring ROE	23.9%	22.5%	21.7%
P/BV (x)	1.35	1.16	0.93
DPS (VND)	-	-	-
Dividend Yield	0%	0%	0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-19.9	-20.9	-4.6
Relative (%)	-10.7	-17.9	-15.6

Major shareholders	% held
Mr. Ngo Chi Dzung	4.5
Mr. Bui Hai Quan	2.3
Mr. Lo Bang Giang	0.1

Analyst(s)

Thuy LE Minh
T (84) 96 784 4629
E thuy.leminh@vndirect.com.vn

Vietnam Prosperity JSC Bank

Slowing loan growth and rising NPLs

- VPB is dealing with double blows of slowing loan growth and rising bad debt.
- 9M18 pre-tax profit was below expectations at VND6,125bn (+8.7% yoy), making up 57% of the bank's FY18 target and 59% of our full-year forecast.
- We will revisit our forecasts but our rating and TP are unchanged for now.

3Q18 profit fell on lower loan growth and higher provision expenses

- The consolidated loan book growth slowed to 19.3% yoy, vs. 29.0% yoy in 3Q17, with loan growth decelerating at both the parent bank and the consumer finance subsidiary – FE Credit, as the State Bank of Vietnam tightened credit control. In particular, loan growth slowed down substantially at FE Credit, which underwrites high-yielding loans.
- As such, 3Q18 net interest margin (NIM) fell 49bp yoy.
- 3Q18 net interest income grew 11.9% yoy while non-interest income jumped 74.8% yoy on higher income from FX trading and bad debt recoveries.
- 3Q18 total operating income growth of 21.1% yoy trailed the 69.1% yoy growth in provision expense, causing pre-tax profit to plunge 26.2% yoy.

9M18 net interest income (NII) increased 21.7% yoy

- The growth in NII was supported by a 19.3% yoy loan growth and a 14bp yoy expansion in 9M18 NIM.
- Although 9M18 NIM was higher than 9M17, NIM started declining in 3Q18, due to the slowdown of high yield lending at FE Credit.
- During 9M18, the consolidated loan book grew 9.5%, of which the parent bank loan growth was 11.3% (vs. 12.4% in 9M17) while FE Credit loan growth was modest at 4.2% (vs. 28.3% in 9M17).

9M18 non-II grew 49.1% yoy with a surge in bad debt recoveries

- Robust growth of non-II was driven by better bad debt recoveries (+142.0% yoy), a VND251bn gain in FX trading vs. a loss of VND43bn in 9M17, and VND850bn one-off upfront bancassurance fee from AIA.
- Sans one-off income, 9M18 non-II grew by 16.8% yoy.
- 9M18 consolidated net fee income (NFI) was down slightly by 3.1% yoy as FE Credit incurred a loss of VND72bn vs. a gain of VND343bn in 9M17. The big drop in FE Credit's NFI was offset by a 55.5% yoy growth in the parent bank's NFI.

Impact of rising bad debt inflated by stagnant loan growth

- Non-performing loan ratio (NPL) rose at both the parent bank and FE Credit, making the consolidated NPL rise from 3.1% at end-9M17 to 4.7% at end-9M18.
- Faced with mounting bad debt, VPB increased both loan write-offs and provisioning, leading to a 45.8% yoy jump in provision expenses.
- The slowdown of loan growth together with the rise in bad debt led to the sharp jump in the NPL ratio. In addition, deceleration of loan growth also hurt the top line, thereby eroding the bank's capacity to write-off bad debt.

9M19 result trailed our projection

- 9M18 pre-tax profit was below expectations at VND6,125bn (+8.7% yoy), fulfilling 59% of our full-year forecast. We will revisit our forecasts in the upcoming company update note.
- Re-rating catalyst includes a recovery in loan growth which will improve the top line.
- The main downside risk is a continued rise in NPL that will fuel higher credit costs.

Figure 1: Results comparison

FYE (VNDbn)	3Q18	3Q17	yoy%	2Q18	qoq%	9M18	9M17	yoy%	VND % of VND		Comments
									FY18F forecasts	FY18F forecasts	
Net interest income	6,002	5,363	12%	6,160	-3%	18,189	14,944	22%	25,386	72%	Below our forecasts due to slowing loan growth.
Non-interest income	1,599	915	75%	691	131%	3,923	2,631	49%	4,813	82%	Above our forecasts due to better bad debt recoveries.
Operating revenue	7,602	6,277	21%	6,851	11%	22,112	17,575	26%	30,199	73%	In line with our forecasts.
Operation expenses	(3,104)	(2,281)	36%	(2,300)	35%	(7,793)	(6,319)	23%	(10,268)	76%	Above our forecasts.
Pre-provision profit	4,497	3,997	13%	4,551	-1%	14,319	11,256	27%	19,931	72%	Below our forecasts.
Total provision charges	(2,748)	(1,625)	69%	(2,794)	-2%	(8,194)	(5,620)	46%	(9,603)	85%	Above our forecasts due to rising bad debt and higher write-offs than our projections.
Pre-tax profit	1,749	2,372	-26%	1,757	0%	6,125	5,635	9%	10,329	59%	Below our forecasts.
Net profit	1,399	1,895	-26%	1,415	-1%	4,900	4,501	9%	8,263	59%	Below our forecasts.

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 2: Regional peers comparison

Banks	Bloomberg Ticker	Recommendation	Closing Price	Target Price	Market cap	P/BV (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)	
			(local curr.)	(local curr.)	(US\$m)	FY18F	FY19F	FY18F	FY19F	%	FY18F	FY19F
Bank Rakyat Indonesia	BBRI IJ	ADD	3,280	4,700	26,743	2.2	1.9	12.4	10.3	15.4%	18.5%	19.8%
Bank Negara Indonesia	BBNI IJ	ADD	7,775	11,100	9,584	1.3	1.2	9.0	7.7	16.5%	15.4%	16.1%
Public Bank Bhd	PBK MK	HOLD	25	26	22,878	2.4	2.2	16.8	15.6	5.5%	14.6%	14.5%
BIMB Holdings	BIMB MK	HOLD	4	4	1,480	1.2	1.1	9.1	8.6	5.9%	14.0%	13.8%
Siam Commercial Bank	SCB TB	HOLD	138	140	14,226	1.2	1.1	11.8	11.5	1.3%	13.3%	12.8%
Kiatnakin Bank	KKP TB	HOLD	71	80	1,825	1.4	1.4	9.1	8.6	8.3%	19.0%	19.4%
Kasikombank	KBANK TB	ADD	203	244	14,750	1.3	1.2	12.5	11.6	10.8%	13.6%	13.6%
Vietcombank	VCB VN	ADD	56,200	79,500	8,664	3.2	2.8	21.3	18.2	20.7%	16.3%	16.4%
Average						1.8	1.6	12.8	11.5	10.5%	15.6%	15.8%
Vietnam Prosperity JSC Bank	VPB VN	ADD	21,000	32,500	2,211	1.4	1.2	6.3	5.5	17.7%	23.9%	22.5%

PRICE AS OF 2 NOV 2018

SOURCES: CGS-CIMB RESEARCH, VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(VNDb)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income	20,625	25,386	30,118	36,041
Total Non-Interest Income	4,399	4,813	5,130	5,751
Operating Revenue	25,023	30,199	35,248	41,792
Total Non-Interest Expenses	(8,895)	(10,268)	(11,984)	(14,209)
Pre-provision Operating Profit	16,128	19,931	23,264	27,583
Total Provision Charges	(8,002)	(9,603)	(11,282)	(13,464)
Operating Profit After Provisions	8,126	10,329	11,981	14,119
Pretax Income/(Loss) from Assoc.	0	0	0	0
Operating EBIT (incl Associates)	8,126	10,329	11,981	14,119
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	8,126	10,329	11,981	14,119
Exceptional Items				
Pre-tax Profit	8,126	10,329	11,981	14,119
Taxation	(1,688)	(2,066)	(2,396)	(2,824)
Consolidation Adjustments & Others				
Exceptional Income - post-tax				
Profit After Tax	6,438	8,263	9,585	11,295
Minority Interests				
Pref. & Special Div	0	0	0	0
FX And Other Adj.	(147)	(147)	(147)	(147)
Net Profit	6,292	8,116	9,439	11,149
Recurring Net Profit	6,292	8,116	9,439	11,149

Balance Sheet

(VNDb)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Gross Loans	206,646	242,142	284,703	335,941
Liquid Assets & Invst. (Current)	54,983	60,453	66,498	73,148
Other Int. Earning Assets				
Total Gross Int. Earning Assets	261,629	302,595	351,202	409,089
Total Provisions/Loan Loss Reserve	(3,149)	(4,271)	(6,291)	(8,684)
Total Net Interest Earning Assets	258,481	298,324	344,911	400,406
Intangible Assets	351	375	402	430
Other Non-Interest Earning Assets	16,344	17,489	18,713	20,023
Total Non-Interest Earning Assets	16,695	17,864	19,114	20,452
Cash And Marketable Securities	2,574	2,754	2,947	3,154
Long-term Investments	0	0	0	0
Total Assets	277,750	318,943	366,972	424,012
Customer Interest-Bearing Liabilities	199,655	231,428	269,727	314,689
Bank Deposits	33,200	34,061	34,949	35,865
Interest Bearing Liabilities: Others	4,086	3,955	4,140	4,334
Total Interest-Bearing Liabilities	236,942	269,444	308,816	354,888
Bank's Liabilities Under Acceptances				
Total Non-Interest Bearing Liabilities	11,115	11,352	12,327	12,147
Total Liabilities	248,057	280,796	321,144	367,035
Shareholders' Equity	29,693	38,147	45,828	56,977
Minority Interests	0	0	0	0
Total Equity	29,693	38,147	45,828	56,977

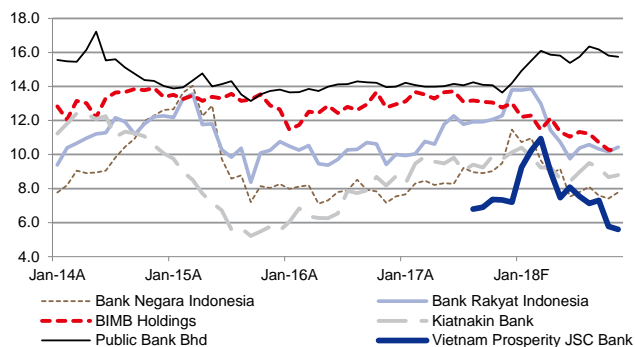
Balance Sheet Employment

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Loans/Cust Deposits	137%	137%	138%	139%
Avg Loans/Avg Deposits	127%	137%	138%	138%
Avg Liquid Assets/Avg Assets	30.4%	28.4%	26.6%	25.0%
Avg Liquid Assets/Avg IEAs	32.3%	30.0%	28.0%	26.0%
Net Cust Loans/Assets	64.6%	66.8%	68.9%	71.0%
Net Cust Loans/Broad Deposits	77.1%	80.3%	83.0%	85.9%
Equity & Provsns/Gross Cust Loans	18.0%	19.5%	20.1%	21.2%
Asset Risk Weighting	86.1%	88.5%	89.1%	89.7%
Provision Charge/Avg Cust Loans	4.89%	4.80%	4.73%	4.73%
Provision Charge/Avg Assets	3.16%	3.22%	3.29%	3.40%
Total Write Offs/Average Assets	2.74%	2.84%	2.70%	2.80%

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Income Growth	48.4%	20.7%	16.7%	18.6%
Operating Profit Growth	57.5%	23.6%	16.7%	18.6%
Pretax Profit Growth	64.8%	27.1%	16.0%	17.8%
Net Interest To Total Income	82.4%	84.1%	85.4%	86.2%
Cost Of Funds	6.13%	6.31%	6.38%	6.49%
Return On Interest Earning Assets	14.3%	14.7%	14.9%	15.1%
Net Interest Spread	8.19%	8.35%	8.48%	8.66%
Net Interest Margin (Avg Deposits)	16.0%	17.4%	17.4%	17.5%
Net Interest Margin (Avg RWA)	10.1%	9.7%	9.9%	10.2%
Provisions to Pre Prov. Operating Profit	49.6%	48.2%	48.5%	48.8%
Interest Return On Average Assets	8.14%	8.51%	8.78%	9.11%
Effective Tax Rate	20.8%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Return On Average Assets	2.48%	2.72%	2.75%	2.82%

12-mth Fwd FD P/E (x)



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Loan Growth (%)	26.3%	19.0%	19.2%	19.5%
Net Interest Margin (%)	8.6%	9.0%	9.2%	9.5%
Non Interest Income Growth (%)	159.4%	9.4%	6.6%	12.1%
Cost-income Ratio (%)	35.5%	34.0%	34.0%	34.0%
Net NPL Ratio (%)	-6.3%	-8.5%	-10.5%	-12.3%
Loan Loss Reserve (%)	50.8%	50.8%	59.2%	67.3%
GP Ratio (%)	1.0%	1.1%	1.4%	1.6%
Tier 1 Ratio (%)	12.4%	13.5%	14.0%	14.9%
Total CAR (%)	14.6%	14.9%	14.8%	15.3%
Deposit Growth (%)	7.9%	18.5%	18.7%	18.7%
Loan-deposit Ratio (%)	134.4%	134.7%	134.7%	135.0%
Gross NPL Ratio (%)	3.4%	3.9%	4.1%	4.2%
Fee Income Growth (%)	69.8%	15.0%	15.0%	15.0%

SOURCES: VND RESEARCH, COMPANY REPORTS

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CIMB

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Description:	Excellent	Very Good	Good	N/A	

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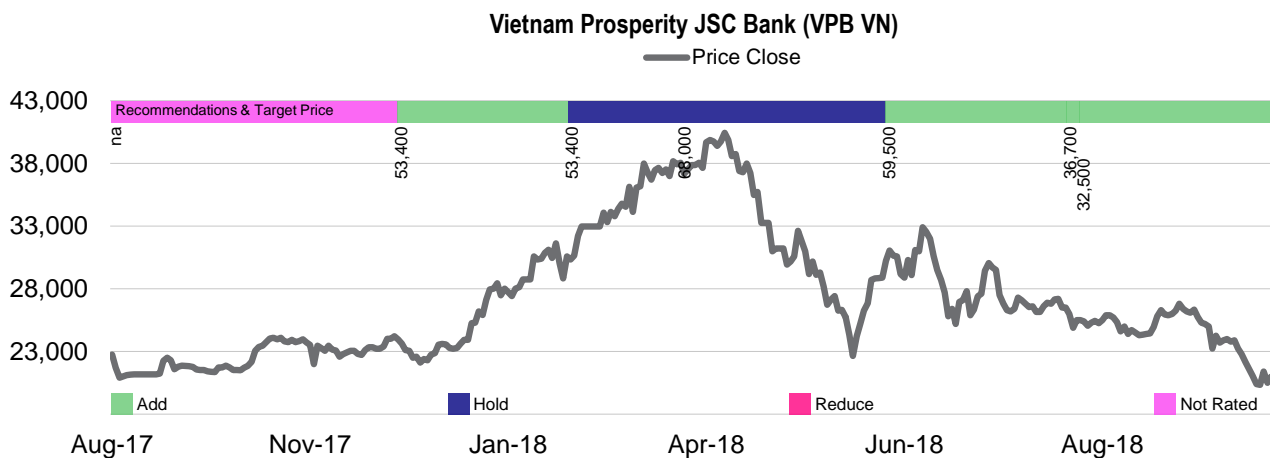
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2018		
759 companies under coverage for quarter ended on 30 September 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



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.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Thuy LE Minh – Analyst

Email: thuy.leminh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi | Tel: +84 2439724568

Email: research@vndirect.com.vn | Website: <https://vndirect.com.vn>