

VPBANK (VPB) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND60,800	VND75,000	0.00%	ADD	FINANCIALS

03 August 2021

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

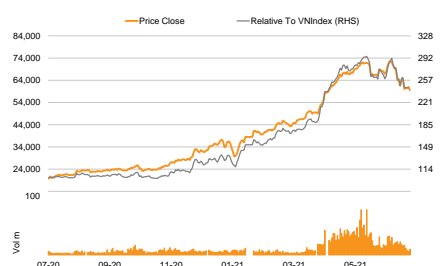
Consensus*: Add:8 Hold:8 Reduce:0

Target price / Consensus: -15.6%

Key changes in the report

- Increase target price by 33.2%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	72,700
52w low (VND)	19,750
3m Avg daily value (VNDmn)	1,848,825
Market cap (VND bn)	149,249
Free float (%)	73
TTM P/E (x)	14.5
Current P/B (x)	2.85

Ownership

Mr. Ngo Chi Dzung	4.5%
Mr. Bui Hai Quan	2.3%
Mr. Lo Bang Giang	0.1%
Others	93.1%

Source: VND RESEARCH

Analyst(s):

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Shining parent bank, dimming FE Credit

- VPB's net profit 2Q21 increased 36.1% yoy to VND4,016bn mainly thanks to parent bank's performance while FE Credit net profit plunged 80% yoy.
- 1H21 NP growth of 37% yoy to VND7,218bn thanks to decrease in funding cost (CoF), fulfilling 55.6% of our full year forecasts.
- The FE Credit divestment gain prompted us a TP upgrade to VND75,000.

Strong 2Q21 earnings growth thanks to investment gain

2Q21 consolidated net profit grew 36.1% yoy to VND4,016bn. Parent bank's NP jumped by 335% yoy to VND7,370bn on the back of 13% yoy credit growth and 1,350% yoy growth of investment gain (~VND1,390bn). During 2Q21, the bank offloaded 18% of its investment (~VND12,000bn). Meanwhile, FE Credit's NP plunged 80% yoy to VND247bn due to 12.28% decrease in loan balance, a softer NIM and a higher credit cost yoy.

1H21 recap: resilience despite gloomy FE Credit

VPB posted VND18,352bn (16.7% yoy) in 1H21 net interest income (NII) on the back of a 15.1% yoy increase in loan book and 57bps yoy to 9% in net interest margin (NIM). Ytd credit grew 7.5%, lower than that of 1H20. VPB has got a credit threshold extension from the State Bank of Vietnam (SBV) to 12.1% for FY21F, still lower our forecast of 18%. 1H21 CoF fell 167bps yoy to 4.6% as deposit rates were cut down 30-100bps yoy across all maturity spectrum while CASA ratio climbed to 18% at end-1H21 from 12% at end-1H20. The bank aggressively booked provision in 2Q21 (+54% yoy), bringing 1H21 provision expenses to increase 34.5% yoy. 1H21 parent bank's NP grew 197% to VND9,945bn; bringing consolidated NP to VND7,218bn (+37% yoy).

FE Credit 's 1H21 NP plunged 54% yoy.

FE Credit's 1H20 NIM compressed 96bps yoy to 25.7%, as the bank squeezed its high-risk lending strategy in the prevailing headwinds. Loan book fell 4.9% qoq and 7.2% vs. end-FY20, while 1H21 credit cost climbed to 17%.

Asset quality show signs of deterioration

Though the bank aggressively wrote off bad debt in 1H21 (5.5%; 77bps yoy); consolidated NPL ratio inched up to 3.5% at end-2Q21 and end-1Q21 from 3.4% end-FY20. FE Credit' NPL spiked 9.1% at end-1H21 from 7.7% at-end 1Q21 and 6.2% at end-FY20. Consolidated loan-loss reserve ratio fell to 44.7% at end-1H21 from 48.8% at end-FY20.

Upgrade from Hold to Add with a higher TP of VND75,000

Our new 1-year target price is based on a target P/BV of 2.1x for FY21F book value to reflect the gain from FE Credit divestment deal. An upside catalyst is the possibility of a private placement for strategic investors.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net interest income (bn)	32,346	39,794	46,585	53,635
Net interest margin	8.7%	9.4%	9.4%	9.5%
Total operating income (bn)	39,033	48,695	56,555	64,576
Total provision charges (bn)	(14,622)	(16,884)	(19,537)	(20,091)
Net profit (bn)	10,414	12,980	14,684	18,540
Net profit growth	26.1%	24.6%	13.1%	26.3%
Adjusted EPS	4,116	5,131	5,804	7,328
BVPS	20,867	25,998	31,802	39,130
ROAE	21.9%	21.9%	20.1%	20.7%

SHINING PARENT BANK, DIMMING FE CREDIT

Upgrade Add with a higher TP of VND75,000

We upgrade Add with a higher TP of VND75,000 on reflecting the FE Credit divestment deal to VPB's consolidated loan book. On Apr 28, 2021, VPB announced that it had reached an agreement with Sumitomo Mitsui Financial Group (SMFG) to sell 49% of the charter capital of FE Credit at a valuation of US\$2.8bn. SMBC Consumer Finance Company (SMBCCF), a subsidiary wholly owned by SMFG, is the legal entity to purchase this stake. SMBC Group is one of the three biggest banking and financial groups in Japan, with total assets of over US\$2,100bn as at end-2020. The group operates in retail banking, corporate banking, and investment banking worldwide, with its presence in over 40 countries. SMBCCF is the leading consumer finance company in Japan with more than 900 branches globally. FE Credit's valuation of US\$2.8bn is c.8% higher than our expected valuation for FE Credit of US\$2.3-2.6bn (see the previous report [Nearer to FE Credit divestment deal](#)), equivalent to a target P/B of 4.0x. The bank expected to book the extraordinary gain from this divestment deal in 2H21F, thus prompting VPB's equity at end-FY21F to VND20,873bn, equivalent to a FY21F book value per share of VND35,693 as per our estimation:

Figure 1: Assumed profit from FE Credit divestment deal

Items	Amount
FE Credit's implied valuation (US\$ bn)	2.8
FE Credit's implied valuation (VND bn) (@ fx rate = 23,000vnd/usd)	64,400
% ownership sold	49%
% ownership sold amount (VND bn)	31,556
Cost for tax purpose (49% FE Credit's charter capital or COGS) (VND bn)	5,464
Gain before tax	26,092
Income tax (20%)	5,218
Gain after tax/Increase in VPB's capital surplus after tax (VND bn)	20,873

Source: VNDIRECT RESEARCH

We apply P/B valuation for VPB with a target P/BV of 2.1x, which is 16% lower than local peers' average. A P/BV multiple allows us to value VPB relative to other banks and factors in market sentiment on the banking sector as a whole. We factored in the extraordinary gain from FE Credit divestment deal. VPB is in the process of finalizing the paperwork to be eligible to recognize this profit, and it is expected to be recognized in the second half of 2021. As a result, our target price is increased by 33.2% to VND75,000 (previously VND56,300) based on 2.1x FY21F P/BV.

Figure 2: Our target price valuation

Valuation	
FY21F Total equity (VND bn)	87,009
Number of FY21F shares (m)	2,438
Book value per shares	35,693
Target P/B (2.1x)	2.1
Target price (VND/share)	74,954
Target price (VND/share, rounded)	75,000

Source: VNDIRECT RESEARCH

Following the market correction in July, VPB stock price dropped more than 15% from peak of VND72,000 to VND56,400, then gradually recovers to VND60,400. We assume this is the time to accumulate bank stocks with high ROE and high growth potential in the future as VPB.

An upside catalyst is the possibility of a private placement for strategic investors. Downside risk is higher-than-expected bad debt.

Figure 3: Vietnam banks comparison (price as of 03/08/2021)

Banks	Bloomberg Ticker	Recommendation	Closing Price (local curr.)	Target Price (local curr.)	Market cap (US\$m)	P/BV (x)		P/E (x)		3-yr Forward EPS CAGR		ROE (%)		ROA (%)	
						FY21F	FY22F	FY21F	FY22F	%	FY21F	FY22F	FY21F	FY22F	
Vietcombank	VCB VN	Add	98,800	119,500	15,847	3.5	2.9	21.9	17.4	23.8%	20.7%	21.6%	1.60%	1.80%	
VietinBank	CTG VN	Add	34,100	42,000	6,998	2.0	1.7	15.3	12.2	18.2%	18.3%	19.6%	1.20%	1.40%	
Techcombank	TCB VN	Add	51,800	57,200	7,824	2.0	1.7	12.1	10.3	17.0%	18.4%	17.9%	3.2%	3.3%	
Military Commercial JSB	MBB VN	Add	29,300	31,400	4,786	2.1	1.7	10.4	8.5	24.2%	21.5%	21.8%	2.1%	2.3%	
Asia Commercial JSB	ACB VN	Add	35,800	41,800	4,153	2.2	1.8	11.4	9.9	16.0%	22.0%	20.5%	1.9%	1.9%	
Vietnam International Bank	VIB VN	Hold	41,600	32,800	2,810	3.2	2.4	13.0	10.5	18.9%	28.3%	26.6%	2.2%	2.1%	
Average						2.5	2.0	14.0	11.5	19.7%	21.5%	21.3%	2.0%	2.1%	
Vietnam Prosperity JSC Bank	VPB VN	Add	60,800	75,000	6,486	1.7	1.8	11.2	11.2	25.4%	21.9%	19.0%	3.4%	2.8%	

Source: VNDIRECT RESEARCH, BLOOMBERG

1H21 recap: in line with our forecasts

Analyst Meeting key takeaways:

Parent bank:

VPB plans to increase its charter capital by 50% from VND60,012bn to VND90,000bn at the end-FY22F to become the top-tier capital bank in Vietnam, and charter capital reach more than VND50,000bn at end-FY21F. In FY21F, besides additional capital from FE Credit deal, VPB plans to pay dividends and issue shares to increase capital with the detail as follow:

- Issuance of 80% stock - equivalent 1.97 billion stock dividend and bonus shares to pay FY20 dividend.
- Issuance of 0.6% ESOP, equivalent VND150bn.
- Issurance maximum of 15% share to foreign partners.

VPB will reduced lending interest rates from 1% to 1.5% to support customers affected by the Covid-19 epidemic. The estimated cost is about VND600bn in 2H21.

The bank also revealed its plan focusing digital banking business in near future:

- Enhance user experience and customer journey for VPB 's mobile app
- Tied up with BE Group to launch the Cake by VPBank in Jan 2021, a digital bank which allows customers to open an account within two minutes, transfer or receive funds, pay bills, and deposit savings. Cake is the first digital bank in Vietnam to operate on a ride-hailing app that serves over 10 million customers and drivers.

FE Credit:

FE Credit will focus mainly on familiar customers, and try to expand to other potential customers such as doctors, teachers... In addition, SMBC - a long-standing financial company in Japan becomes a shareholder will help FE credit have more experience and strategies to increase its influence in the Vietnam market.

Figure 4: Result comparison (VND bn, otherwise noted)

Profit & Loss statement									VND FY21F	% of VND	Comments
	2Q21	2Q20	yoy%	1Q21	qoq%	6M21	6M20	yoy%	forecasts	forecasts	
Net interest income	9,232	7,701	19.9%	9,120	1.2%	18,352	15,722	16.7%	39,794	46.1%	In line with our forecast
Non-interest income	2,815	1,248	125.6%	1,932	45.7%	4,747	3,132	51.5%	8,902	53.3%	In line with our forecast
Operating revenue	12,047	8,948	34.6%	11,051	9.0%	23,098	18,854	22.5%	48,695	47.4%	
Operation expenses	(2,817)	(2,555)	10.2%	(2,592)	8.7%	(5,409)	(5,838)	-7.4%	(15,582)	34.7%	Below our forecast as VPB successfully managed to reduce CIR to another lower level at 23.4%
Pre-provision profit	9,230	6,393	44.4%	8,459	9.1%	17,690	13,016	35.9%	33,113	53.4%	
Provision expenses	(4,199)	(2,720)	54.4%	(4,453)	-5.7%	(8,653)	(6,431)	34.5%	(16,884)	51.2%	In line with our forecast
Pre-tax profit	5,031	3,673	37.0%	4,006	25.6%	9,037	6,585	37.2%	16,228	55.7%	
Net profit	4,016	2,951	36.1%	3,202	25.4%	7,218	5,265	37.1%	12,980	55.6%	In line with our forecast

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 5: VPB's key ratios by quarter

Key ratios	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
NII/Total operating income (TOI)	74.9%	85.2%	83.7%	84.0%	82.2%	81.0%	86.1%	83.2%	81.6%	82.5%	76.6%
Non-II/TOI	25.1%	14.8%	16.3%	16.0%	17.8%	19.0%	13.9%	16.8%	18.4%	17.5%	23.4%
NIM (annualised)	9.2%	8.9%	9.7%	9.5%	9.6%	8.9%	8.3%	8.3%	8.9%	9.1%	8.9%
Loan-to-deposit ratio (LDR)	81.0%	84.1%	83.4%	83.7%	79.7%	78.7%	79.9%	79.5%	82.6%	81.9%	82.1%
Non-performing loans (NPL) ratio	3.5%	3.6%	3.4%	3.5%	3.4%	3.0%	3.2%	3.6%	3.4%	3.5%	3.5%
Loan-loss-reserves (LLR)	45.9%	48.3%	48.5%	49.6%	46.4%	52.0%	48.8%	47.9%	45.3%	43.9%	44.7%
Credit cost (annualised)	5.8%	5.7%	5.5%	5.6%	5.6%	5.7%	4.1%	5.7%	6.1%	6.0%	5.5%
Cost-to-income ratio (CIR)	34.2%	37.4%	35.8%	34.7%	34.0%	33.1%	28.6%	29.4%	25.8%	23.5%	23.4%
ROAA (trailing 12 months)	2.5%	2.2%	2.3%	2.5%	2.4%	2.5%	2.7%	2.6%	2.6%	2.7%	2.9%
ROAE (trailing 12 months)	22.9%	20.0%	21.1%	22.6%	21.5%	22.7%	23.6%	22.3%	22.0%	22.6%	23.2%

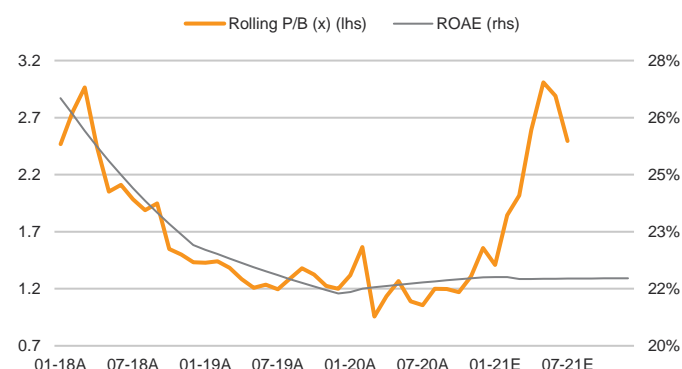
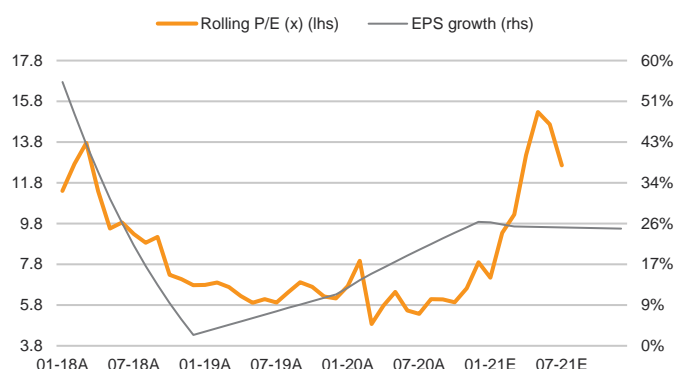
Source: VNDIRECT RESEARCH, COMPANY REPORT

Figure 6: FE Credit's key ratios by quarter

Key ratios	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
NII/Total operating income (TOI)	83.8%	92.3%	99.1%	95.0%	95.9%	97.9%	97.6%	92.9%	92.7%	89.5%	105.3%
Non-II/TOI	16.2%	7.7%	0.9%	5.0%	4.1%	2.1%	2.4%	7.1%	7.3%	10.5%	-5.3%
NIM (annualised)	28.7%	27.2%	29.5%	28.9%	29.5%	27.1%	26.6%	26.5%	25.7%	25.6%	24.1%
Non-performing loans (NPL) ratio	6.0%	5.5%	5.0%	5.2%	5.6%	3.9%	5.1%	6.5%	6.2%	7.7%	9.1%
Loan-loss-reserves (LLR)	36.1%	42.6%	43.1%	40.9%	37.9%	55.3%	45.4%	44.0%	38.5%	34.3%	32.3%
Credit cost (annualised)	15.3%	14.8%	14.1%	13.8%	14.6%	14.7%	12.5%	13.1%	14.1%	15.1%	17.6%
Cost-to-income ratio (CIR)	21.88%	33.02%	30.96%	31.07%	30.22%	31.80%	26.32%	26.86%	25.40%	21.81%	29.43%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Valuation



Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net interest income	32,346	39,794	46,585
Non interest income	6,687	8,902	9,971
Total operating income	39,033	48,695	56,555
Total operating costs	(11,392)	(15,582)	(18,663)
Pre-provision operating profit	27,641	33,113	37,892
Total provision charges	(14,622)	(16,884)	(19,537)
Income from associates & JVs			
Net other income			
Pre-tax profit	13,019	16,228	18,355
Tax expense	(2,606)	(3,248)	(3,671)
Profit after tax	10,414	12,980	14,684
Minority interest	0	0	0
Net profit	10,414	12,980	14,684

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Gross loans to customers	290,816	338,857	394,856
Loans to banks	25,334	31,668	39,585
Total gross loans	316,151	370,525	434,441
Securities - total	77,307	84,265	97,748
Other interest earning assets	258	0	0
Total gross IEAs	393,716	454,791	532,189
Total provisions	(4,825)	(5,233)	(6,363)
Net loans to customers	286,319	333,985	388,688
Total net IEAs	388,891	449,558	525,825
Cash and deposits	3,283	3,611	4,044
Total investments	239	262	294
Other assets	26,615	29,276	32,789
Total non-IEAs	30,136	33,149	37,127
Total assets	419,027	482,707	562,953
Customer deposits	233,428	269,755	318,792
Cds outstanding	62,845	73,757	83,505
Customer interest-bearing liabilities	296,273	343,513	402,297
Bank deposits	56,526	65,016	69,650
Broad deposits	352,799	408,529	471,947
Other interest-bearing liabilities	327	327	327
Total IBLs	353,126	408,856	472,274
Deferred tax liability			
Other non-interest bearing liabilities	13,107	8,077	10,221
Total non-IBLs	13,107	8,077	10,221
Total liabilities	366,233	416,933	482,494
Share capital	25,300	25,300	25,300
Additional paid-in capital	366	366	366
Treasury shares	(2,199)	(2,199)	(2,199)
Retained earnings reserve	17,415	30,396	45,080
Other reserves	11,912	11,912	11,912
Shareholders' equity	52,794	65,774	80,458
Minority interest	0	0	0
Total equity	52,794	65,774	80,458
Total liabilities & equity	419,027	482,707	562,953

	12-20A	12-21E	12-22E
Growth rate (yoy)			
Cust deposit growth	9.1%	15.6%	18.2%
Gross cust loan growth	13.1%	16.5%	16.5%
Net interest income growth	5.5%	23.0%	17.1%
Pre provision operating profit growth	15.1%	19.8%	14.4%
Net profit growth	26.1%	24.6%	13.1%
Growth in IEAs	12.1%	15.6%	17.0%
Share value			
Basic EPS (VND)	4,116	5,131	5,804
BVPS (VND)	20,867	25,998	31,802
DPS (VND)	0	0	0
EPS growth	26.1%	24.6%	13.1%

Key ratios

	12-20A	12-21E	12-22E
Net interest margin	8.7%	9.4%	9.4%
Cost-income ratio	(29.2%)	(32.0%)	(33.0%)
Reported NPLs / gross cust loans	3.4%	3.1%	3.3%
Reported NPLs / net cust loans	3.5%	3.1%	3.3%
GP charge / average cust loans	5.3%	5.4%	5.3%
Total CAR	0.0%	0.0%	0.0%
Loan deposit ratio	98.2%	98.6%	98.2%
Margins and spreads			
Return on IEAs	14.1%	14.9%	15.0%
Cost of funds	5.9%	6.1%	6.3%
Interest return on average assets	8.1%	8.8%	8.9%
ROAE	21.9%	21.9%	20.1%

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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