

## VPBANK (VPB) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND36,850	VND45,800	0.00%	Add	FINANCIALS

9 March 2022

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

Consensus\*: Add:8 Hold:5 Reduce:0

Target price / Consensus: 8.1%

### Key changes in the report

- Increase target price by 2%.
- FY22-23F EPS decrease 0.6%/3.8%.

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	40,389
52w low (VND)	23,222
3m Avg daily value (VNDmn)	526,659
Market cap (VND bn)	167,594
Free float (%)	73
TTM P/E (x)	14.1
Current P/B (x)	2.12

### 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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## Smooth sailing

- FY21 net profit (NP) grew 13.4% yoy to VND11,808bn, fulling 90% of our full year forecast.
- We forecast FY22F earning to grow 28.4% yoy to VND15,163bn.
- Reiterate Add rating with a higher TP of VND45,800 base on a target P/B of 2.2x for FY22F book value.

### Shining parent bank, dimming FE Credit

The parent bank of VPB posted VND31,087bn in FY21 net profit (317.6% yoy); mainly thanks to the divestment of 49% stake in FE Credit. If excluding this one-off gain, FY21 NP of parent bank was estimated to grow 44.2% yoy; driven by 26.7% yoy loan growth and 18.9% yoy net fee income (NFI) growth. Meanwhile, FE Credit's total operating incomes decreased 12% yoy with 14.2% yoy loan growth and 21.1% NIM in FY21, operation expenses decreased 7% yoy while provisioning surged 16% yoy. All in, FE Credit pre-tax profit reached only VND0.6bn (-83.6% yoy).

### Still the best bank in term of profitable metrics

In FY21 consolidated results, VPB delivered 7.63% of NIM (highest among banks) and 18% of ROE. NPL ratio slightly inched up to 4.47% at end-FY21 from 3.4% at end-4Q20. Of which, NPL ratio of parent bank managed at 1.5%; while that of FE Credit was about 13.6% per our estimate. As the bank aggressively booked provision with 112% yoy, consolidated loan-loss reserve (LLR) ratio increased to 60.9% from 45.3% at end-4Q20 – the highest since FY17. At end-FY21, VPB reported CAR of 14.2%; in the top among banks.

### Embarking the digital banking targets

After offloading its stake in FE Credit, VPB embarked the journey to transform from a traditional bank into a digital bank revolving around VPBank Neo which was launched since June 21. VPBank Neo plays as a platform for financial and integrated services in VPB's ecosystem, serving both individuals and corporates. VPB also expands its ecosystems by strengthening partnerships with other Fintech, mobile banking and other retail businesses. The bank sets up VPBank Securities JSC (acquired ASC Securities JSC) with chartered capital of VND9,000bn.

### Reiterate to Add rating a higher TP of VND45,800

We expect VPB's NP to grow 28.4% yoy in FY22F, on the back of 23% yoy of loan growth and 7.7% of NIM. Our new 1-year target price of VND45,800 based on a target P/B of 2.2x for FY22F book value. Downside risks include higher-than-expected inflation might hinder loan growth and higher-than-expected bad debts. Upside catalyst is the possibility of a private placement for strategic investors following the bank's Foreign ownership limit (FOL) to be lifted from 15.0% to 17.5% in March, 2022.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net interest income (bn)	32,346	34,349	43,314	52,215
Net interest margin	8.7%	7.6%	7.7%	7.8%
Total operating income (bn)	39,033	44,302	54,959	65,478
Total provision charges (bn)	(14,622)	(19,002)	(20,452)	(23,267)
Net profit (bn)	10,414	11,808	15,163	18,840
Net profit growth	26.1%	13.4%	28.4%	24.2%
Adjusted EPS	4,116	2,621	3,330	4,137
BVPS	20,867	17,413	20,559	24,696
ROAE	21.9%	18.0%	17.6%	18.3%

Source: VND RESEARCH

## SMOOTH SAILING

### FY21 recap: below our expectation due to heavy provision

Figure 1: 4Q21 and FY 21 Consolidated result comparison (VND bn, otherwise noted)

Profit & Loss statement	4Q21	yoy%	3Q21	qoq%	FY21	yoy %	VND FY21F forecasts	% of VND forecasts	Comments
Net interest income	8,523	-2.5%	7,474	14.0%	34,349	6.2%	39,794	86.3%	FE Credit's performance is weaker than our expectation due to lower NIM and credit growth.
Non-interest income	2,548	29.5%	2,658	-4.2%	9,953	48.8%	8,902	111.8%	Income from securities trading was higher than our expectation in 2Q21 and 4Q21.
Operating revenue	11,070	3.4%	10,133	9.3%	44,302	13.5%	48,695	91.0%	
Operation expenses	(2,855)	3.2%	(2,456)	16.3%	(10,719)	-5.9%	(15,582)	68.8%	FY21 CIR was only 24%, significantly lower than our expectation thanks to huge investment during in IT lifted operational efficiency. Average each labor cost per year decrease to VND243bn in FY21 from VND319bn in FY20.
Pre-provision profit	8,216	3.5%	7,677	7.0%	33,583	21.5%	33,113	101.4%	
Provision expenses	(5,371)	24.4%	(4,979)	7.9%	(19,002)	30.0%	(16,884)	112.5%	Higher provision than our expectation in 3Q21 and 4Q21.
Pre-tax profit	2,845	-21.5%	2,698	5.4%	14,581	12.0%	16,228	89.8%	
Net profit	2,429	-16.2%	2,161	12.4%	11,651	11.9%	12,980	89.8%	Below our forecast

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 2: VPB's key ratios by quarter

Key ratios	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
NII/Total operating income (TOI)	85.2%	83.7%	84.0%	82.2%	81.0%	86.1%	83.2%	81.6%	82.5%	76.6%	73.8%	77.0%
Non-II/TOI	14.8%	16.3%	16.0%	17.8%	19.0%	13.9%	16.8%	18.4%	17.5%	23.4%	26.2%	23.0%
NIM (annualised)	8.9%	9.1%	9.3%	9.3%	8.9%	8.7%	8.5%	8.7%	9.1%	8.9%	6.9%	7.2%
Loan-to-deposit ratio (LDR)	84.1%	83.4%	83.7%	79.7%	78.7%	79.9%	79.5%	82.6%	81.9%	81.9%	78.2%	81.1%
Non-performing loans (NPL) ratio	3.6%	3.4%	3.5%	3.4%	3.0%	3.2%	3.6%	3.4%	3.5%	3.5%	4.0%	4.5%
Loan-loss-reserves (LLR)	48.3%	48.5%	49.6%	46.4%	52.0%	48.8%	47.9%	45.3%	43.9%	44.7%	48.9%	60.9%
Credit cost (annualised)	5.7%	5.5%	5.6%	5.6%	5.7%	4.9%	5.1%	5.3%	6.0%	5.5%	6.3%	6.4%
Cost-to-income ratio (CIR)	37.4%	35.8%	34.7%	34.0%	33.1%	28.6%	29.4%	25.8%	23.5%	23.4%	24.2%	25.8%
Provision/Pre-provisioning operating profit (PPO)	64.3%	56.1%	55.2%	54.2%	56.0%	42.5%	57.9%	54.4%	52.6%	45.5%	64.9%	65.4%
ROAA (trailing 12 months)	2.2%	2.3%	2.5%	2.4%	2.5%	2.7%	2.6%	2.6%	2.7%	2.9%	2.8%	2.5%
ROAE (trailing 12 months)	20.0%	21.1%	22.6%	21.5%	22.7%	23.6%	22.3%	22.0%	22.6%	23.2%	21.9%	18.6%

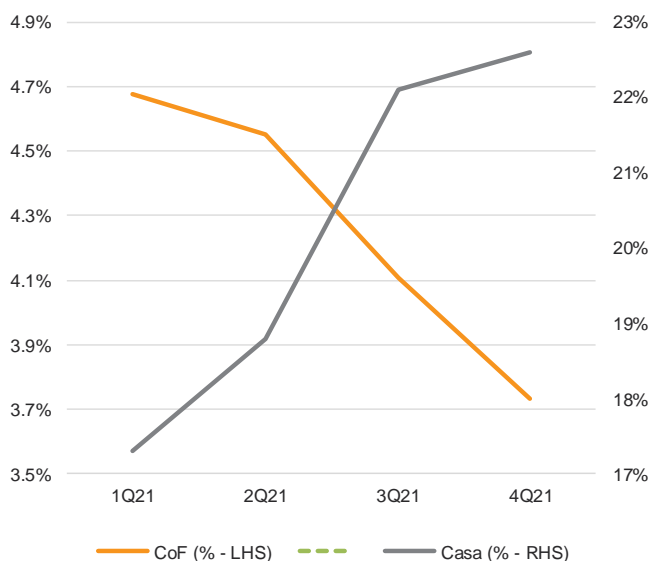
Source: VNDIRECT RESEARCH, COMPANY REPORTS

### Shining parent bank ...

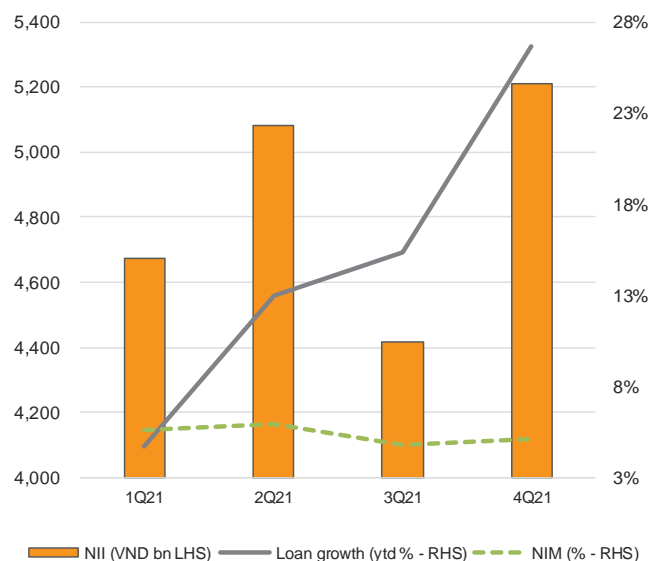
FY21 net interest incomes of the parent bank still grew strongly 29% yoy in FY21, driven by 20.2% credit growth and 5.1% of NIM. The separate bank experienced NIM expansion by 20bps yoy from 4.9% of FY20 thanks to better cost of fund (COF). In 2021, the bank mobilised about US\$300m from international financial institutes (JICA, SMBC,...) while CASA ratio climbed to 22.6% at end-FY21 from 15.8% at end-FY20; bringing its COF down 195bp yoy to 3.7%. Net fee income grew sustainably 18.9% yoy thanks to payment activities (34.2% yoy) and account fee (63.8% yoy); while banca activities dropped 18% yoy due to social distancing.

Per our estimate, the divestment deal from FE credit contributed about VND20,352bn, bringing non-interest incomes also surged 457% yoy, making up 39.2 % of TOI.

If excluding one-off gain from FE Credit divestment, the separate bank recorded VND17,610bn in pre-tax profit (89.2% yoy).

**Figure 3: CoF dropped sharply since 3Q21 on improving CASA**


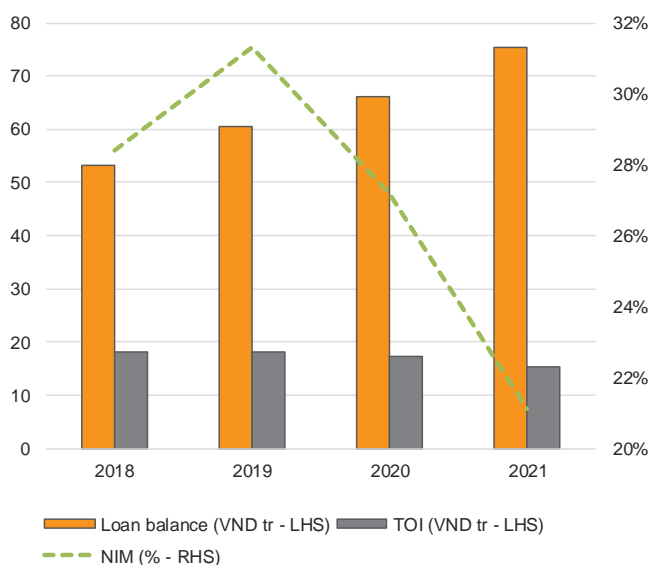
Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 4: NII rebounded from its trough in 3Q21**


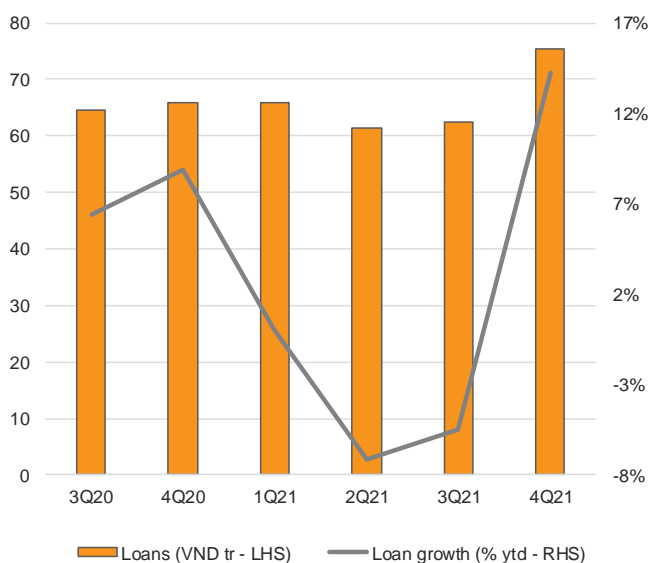
Source: VNDIRECT RESEARCH, COMPANY REPORTS

### ... dimming FE Credit

FE Credit's FY21 outstanding loan balance was estimated to grow 14.2% yoy higher than that of 8.9% of FY20. However, NIM compressed sharply to 21.1% in FY21 from 27.2% in FY20 as asset yield dropped steeper than funding cost. We believe the company had to lower its pricings in order to attract clients amid the hard impact of Covid-19 and increasing competition in consumer finance space. Surging expenses also ate up FE Credit's earnings. FY21 CIR climbed to 30.5% from 28.9% of FY20 as the bank applied technology to reduce some traditional expenses. Per our estimate, provisioning expenses soared about 16% yoy, thus, pre-tax profit was recorded at VND0.6bn(-83.5% yoy). We believe this was not a surprise as consumer finance was the sector to get hardest hit from movement control and business disruption during the pandemic.

**Figure 5: FE Credit's TOI and NIM decreased since FY19**


Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 6: FE Credit's loans rebounded from its trough in 2Q21**


Source: VNDIRECT RESEARCH, COMPANY REPORTS

### FY22-23F earnings revision

We assume high capital adequacy ratio (CAR) (14%) in FY21 will help the parent bank reach the higher credit growth from the State bank than other banks in FY22F. However, the LDR rate was high with 75.7% at end FY21, so we forecast the loan growth of parent bank reach 23% yoy in FY22-23F – lower than that 26.3% yoy in FY21. We also estimate parent bank's NIM will reduce 30bps to around 4.8% (from 5.1% in FY21) in FY22F as the bank has limit room to minimize the risks of rising deposit rates, caused by higher inflation and competition for funds. Although VPB tried to increase new funding from prestigious organizations as well as increasing CASA. However, the proportion of new funding from prestigious organizations has not yet accounted of funding structure (~19%), and the CASA is at average level in sector (22.6% at end FY21), so we believe the parent bank's will be difficult to maintain high NIM level in FY22F. As a result, we forecast parent bank's NII increase 8.8% yoy in FY22F.

With FE Credit, we forecast NII increase 10.7% yoy based on 16% yoy loan growth and 22.5% of NIM in FY22F. We assume higher consumer from retail and individual as the economy recovers and support from SMBC will help FE Credit recover to pre-pandemic levels since FY22F.

We project non-interest income growth of 17% yoy in FY22F thanks to diversification of income sources from subsidiaries. Since FY22F, the bank has a new income from new subsidiary – VPBank Securities JSC. The bank acquired VPBank Securities JSC (formerly ASC Securities JSC) and raise its chartered capital to VND9,000bn (the third highest in the Vietnamese securities company's market) in early FY22 with the goal of achieving after-tax profit more than VND600bn.

In FY21, CIR improved much better than expected thanks to huge investments in IT lifted operational efficiency since FY17-21 helps CIR down to 24.2% from 35.5% in FY17. We believe the bank will likely maintain this CIR in FY22-23F.

Thus, net profit increase 28.4%/24.2% yoy in FY22-23F.

**Figure 7: FY22-23F earnings revision (VND bn unless otherwise noted)**

	Old forecasts		New forecasts		Change		Comments
	FY22	FY23	FY22	FY23	FY22	FY23	
Net interest income	44,263	55,146	43,314	52,215	-2.1%	-5.3%	We forecast subsidiaries and VPB securities JSC will help VPB increase non-interest income in FY22-23F.
Non-interest income	10,363	11,468	11,645	13,263	12.4%	15.7%	
Operating revenue	54,626	66,614	54,959	65,478	0.6%	-1.7%	
Operating expenses	(15,842)	(19,984)	(15,553)	(18,661)	-1.8%	-6.6%	
Pre-provision profit	38,785	46,630	39,406	46,817	1.6%	0.4%	
Provision expenses	(19,722)	(22,156)	(20,452)	(23,267)	3.7%	5.0%	
Pre-tax profit	19,063	24,474	18,954	23,550	-0.6%	-3.8%	
Net profit	15,250	19,579	15,163	18,840	-0.6%	-3.8%	

Source: VNDIRECT RESEARCH

### Valuation: Add rating with a higher TP of VND45,800

We apply P/B valuation for VPB with a target P/B of 2.2x – higher than 10% with average peers. We believe that VPB deserved with 2.2x P/B to reflect EPS CAGR in FY22-24F, which is higher than average peer. A P/B multiple allows us to value VPB relative to other banks and factors in market sentiment on the banking sector as a whole.

Downside risks include higher-than-expected inflation might hinder loan growth and higher-than-expected bad debts. An upside catalyst is the possibility of a private placement for strategic investors, following the bank's FOL to be lifted from 15% to 17.5% in March, 2022.

**Figure 8: Our target price valuation**

Valuation	
FY22F total equity (VND bn)	93,621
Number of FY22F share (m)	4,494
Book value per shares	20,834
Target P/B (2.2x)	2.2
Target price (VND/share)	45,835
Target price (VND/share, rounded)	<b>45,800</b>

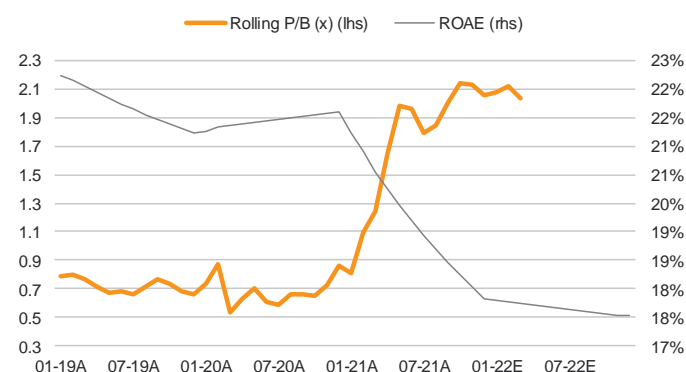
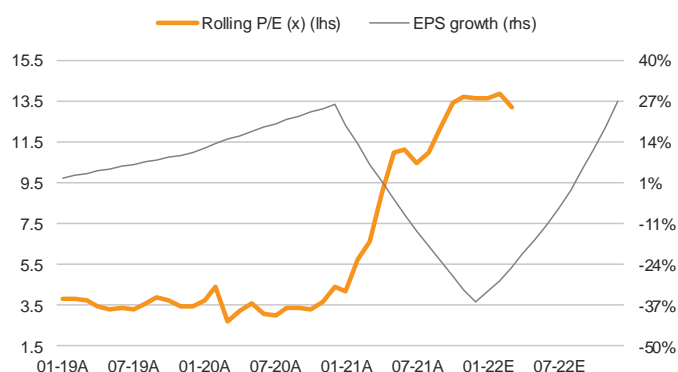
Source: VNDIRECT RESEARCH

**Figure 9: Vietnam peer's comparison (price as of 09/03/2022)**

Banks	Bloomberg Ticker	Recommendation	Closing Price	Target Price	Market cap	P/BV (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)		ROA (%)	
			(local curr.)	(local curr.)	(US\$m)	FY22F	FY23F	FY22F	FY23F	%	FY22F	FY23F	FY22F	FY23F
Vietcombank	VCB VN	ADD	83,000	93,000	15,674	3.1	2.6	20.2	16.2	22.4%	19.7%	20.6%	1.5%	1.8%
VietinBank	CTG VN	ADD	32,000	41,700	7,262	1.60	1.40	16.90	14.10	17.3%	15.0%	15.8%	1.00%	1.10%
Techcombank	TCB VN	ADD	49,100	70,000	7,327	1.60	1.34	8.30	6.90	26.0%	22.1%	21.6%	3.6%	3.7%
Military Commercial JSB	MBB VN	ADD	30,750	34,500	5,602	1.80	1.49	10.90	8.60	24.2%	23.0%	23.0%	2.3%	2.4%
Asia Commercial JS Bank	ACB VN	ADD	32,700	41,800	4,238	1.67	1.36	7.96	6.95	18.8%	24.0%	23.5%	2.2%	2.2%
Vietnam International Bank	VIB VN	HOLD	44,500	46,400	3,257	2.37	1.90	10.50	8.90	18.6%	23.0%	22.0%	2.0%	2.0%
Tien Phong Commercial JSB	TPB VN	HOLD	38,800	41,100	2,882	1.9	1.6	11.0	9.0	23.1%	20.7%	20.6%	0.021	0.022
<b>Average</b>						<b>2.0</b>	<b>1.7</b>	<b>12.3</b>	<b>10.1</b>	<b>21.5%</b>	<b>21.1%</b>	<b>21.0%</b>	<b>2.1%</b>	<b>2.2%</b>
<b>Vietnam Prosperity JSC Bank</b>	<b>VPB VN</b>	<b>ADD</b>	<b>36,850</b>	<b>45,800</b>	<b>5,327</b>	<b>1.8</b>	<b>1.5</b>	<b>10.7</b>	<b>10.9</b>	<b>24.8%</b>	<b>17.6%</b>	<b>17.6%</b>	<b>2.5%</b>	<b>2.9%</b>

Source: VNDIRECT RESEARCH, BLOOMBERG



**Valuation**

**Income statement**

(VNDbn)	12-21A	12-22E	12-23E
<b>Net interest income</b>	<b>34,349</b>	<b>43,314</b>	<b>52,215</b>
<b>Non interest income</b>	<b>9,953</b>	<b>11,645</b>	<b>13,263</b>
<b>Total operating income</b>	<b>44,302</b>	<b>54,959</b>	<b>65,478</b>
Total operating costs	(10,719)	(15,553)	(18,661)
<b>Pre-provision operating profit</b>	<b>33,583</b>	<b>39,406</b>	<b>46,817</b>
<b>Total provision charges</b>	<b>(19,002)</b>	<b>(20,452)</b>	<b>(23,267)</b>
Income from associates & JVs			
Net other income			
<b>Pre-tax profit</b>	<b>14,581</b>	<b>18,954</b>	<b>23,550</b>
Tax expense	(2,930)	(3,791)	(4,710)
<b>Profit after tax</b>	<b>11,651</b>	<b>15,163</b>	<b>18,840</b>
Minority interest	157	0	0
<b>Net profit</b>	<b>11,808</b>	<b>15,163</b>	<b>18,840</b>

**Balance sheet**

(VNDbn)	12-21A	12-22E	12-23E
Gross loans to customers	355,281	431,717	525,763
Loans to banks	67,965	84,957	97,700
<b>Total gross loans</b>	<b>423,247</b>	<b>516,674</b>	<b>623,464</b>
Securities - total	83,007	96,288	105,917
Other interest earning assets	959	0	0
<b>Total gross IEAs</b>	<b>507,213</b>	<b>612,962</b>	<b>729,381</b>
<b>Total provisions</b>	<b>(9,912)</b>	<b>(10,491)</b>	<b>(11,662)</b>
<b>Net loans to customers</b>	<b>345,607</b>	<b>421,419</b>	<b>514,314</b>
<b>Total net IEAs</b>	<b>497,300</b>	<b>602,471</b>	<b>717,719</b>
Cash and deposits	2,346	2,627	2,942
Total investments	250	280	313
Other assets	47,627	53,342	59,743
<b>Total non-IEAs</b>	<b>50,222</b>	<b>56,249</b>	<b>62,999</b>
<b>Total assets</b>	<b>547,523</b>	<b>658,720</b>	<b>780,718</b>
Customer deposits	241,837	285,039	334,819
Cds outstanding	81,296	91,163	95,721
Customer interest-bearing liabilities	323,133	376,202	430,540
Bank deposits	123,073	132,013	131,852
Broad deposits	446,206	508,215	562,393
Other interest-bearing liabilities	104	104	104
<b>Total IBLs</b>	<b>446,310</b>	<b>508,319</b>	<b>562,497</b>
Deferred tax liability			
Other non-interest bearing liabilities	14,865	56,780	105,760
<b>Total non-IBLs</b>	<b>14,865</b>	<b>56,780</b>	<b>105,760</b>
<b>Total liabilities</b>	<b>461,175</b>	<b>565,099</b>	<b>668,257</b>
Share capital	45,057	45,057	45,057
Additional paid-in capital	77	77	77
Treasury shares	(1,761)	(1,761)	(1,761)
Retained earnings reserve	22,500	37,663	56,503
Other reserves	12,585	12,585	12,585
<b>Shareholders' equity</b>	<b>78,458</b>	<b>93,621</b>	<b>112,461</b>
Minority interest	7,890	0	0
<b>Total equity</b>	<b>86,348</b>	<b>93,621</b>	<b>112,461</b>
<b>Total liabilities &amp; equity</b>	<b>547,523</b>	<b>658,720</b>	<b>780,718</b>

	12-21A	12-22E	12-23E
<b>Growth rate (yoy)</b>			
Cust deposit growth	3.6%	17.9%	17.5%
Gross cust loan growth	22.2%	21.5%	21.8%
Net interest income growth	6.2%	26.1%	20.6%
Pre provision operating profit growth	21.5%	17.3%	18.8%
Net profit growth	13.4%	28.4%	24.2%
Growth in IEAs	27.9%	21.1%	19.1%
<b>Share value</b>			
Basic EPS (VND)	2,621	3,330	4,137
BVPS (VND)	17,413	20,559	24,696
DPS (VND)	0	0	0
EPS growth	(36.3%)	27.1%	24.2%

**Key ratios**

	12-21A	12-22E	12-23E
Net interest margin	7.6%	7.7%	7.8%
Cost-income ratio	(24.2%)	(28.3%)	(28.5%)
Reported NPLs / gross cust loans	2.8%	3.1%	3.6%
Reported NPLs / net cust loans	2.9%	3.1%	3.7%
GP charge / average cust loans	5.9%	5.2%	4.9%
Total CAR	0.0%	0.0%	0.0%
Loan deposit ratio	109.9%	114.8%	122.1%
<b>Margins and spreads</b>			
Return on IEAs	11.3%	11.8%	12.1%
Cost of funds	4.1%	4.8%	5.4%
Interest return on average assets	7.1%	7.2%	7.3%
ROAE	18.0%	17.6%	18.3%

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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