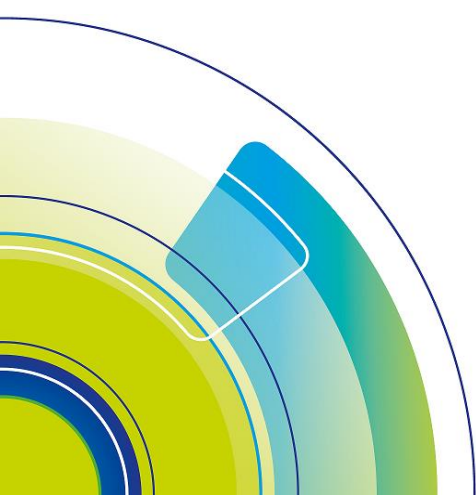




Update VCB – BUY

April 13, 2023



Hung Cao, CFA

(+84 28) 7300 7000 (ext: 1049)

hungcv@acbs.com.vn

Recommendation

BUY
HOSE: VCB

Banking

Current price (VND) **88,200**

Target price (VND) **101,000**

Expected share price return +14.5%

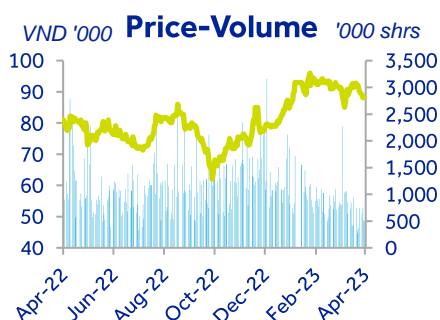
Expected dividend yield 1.4%

Expected total return **+15.9%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	10.3	-4.1	4.1	7.2
Relative	4.3	-5.8	2.6	32.4

Source: Bloomberg



Ownership

State Bank of Vietnam	74.8%
Mizuho Bank Ltd	15.0%
Others	10.2%

Stock Statistics 13-Apr-23

Bloomberg code	VCB VN
52-week range (VND)	62,000-96,300
No. of shares (m)	4,733
Mkt cap (VND bn)	417,408
Mkt cap (USD m)	17,679
Foreign room left (%)	6.5
Est. free float (%)	25.2
3m avg daily vol (shs)	886,712
VND/USD	23,610
Index: VNIndex / HNX	1064.30/209.84

BANK FOR FOREIGN TRADE OF VIETNAM (VCB)

Strong business growth in 2022 despite difficult macro environment

2022's PBT grew by 36.4% from the previous year thanks to credit growth of 18.8%, NIM expanding by 0.24 pts to 3.46% and provision expenses down 19.5%.

Banking system liquidity stress caused interest rates to increase sharply in the period of Q3-Q4/22 which had a positive impact on VCB's NIM thanks to its strong mobilization ability and its best liquidity position in the system.

Positive outlook for 2023 although profit growth will be slower

Interest rates decreased slightly since the beginning of 2023 but are still maintaining high levels. We expect VCB to still be able to keep the NIM level equivalent to 2022.

Asset quality is our top concern in 2023 despite the fact that VCB is always among the banks with the lowest NPL ratio in the system. Difficulties in the real estate and renewable energy markets, along with the taking over Construction Bank will put pressure on VCB's asset quality and credit costs.

The positive point is that VCB's relatively thick reserve buffer will help the bank have room to handle arising NPLs and keep asset quality at a good level. The provision of VND10,840 billion interbank loans is also a potential reversed provision when VCB recovers the loans.

We forecast VCB's PBT in 2023 to reach **VND44,222 billion**, up **18.3%**, higher than the management's minimum growth target of 12%.

Valuations and recommendations

We reiterate our recommendation to **BUY** with an 1-year target price of **VND101,000 per share** using a discounted residual income method, equivalent to a 2023's P/E and P/B of 14.8x and 3.0x.

(VND bn)	2020	2021	2022	2023F	2024F	2025F
Credit growth	14.0%	15.1%	18.8%	16.0%	16.0%	16.0%
NIM	2.95%	3.22%	3.46%	3.45%	3.44%	3.41%
NFI proportion	26.0%	25.3%	21.8%	20.1%	20.3%	19.2%
TOI growth	7.3%	15.6%	20.0%	17.6%	15.9%	13.7%
CIR	32.7%	31.0%	31.2%	29.2%	28.2%	27.3%
Net credit costs	-0.95%	-0.97%	-0.66%	-0.80%	-0.77%	-0.75%
Profit before tax	23,050	27,389	37,368	44,222	52,184	59,994
growth	-0.3%	18.8%	36.4%	18.3%	18.0%	15.0%
Profit attributable	16,523	19,537	27,673	32,393	38,215	43,827
Adjusted EPS (VND)	4,455	5,268	5,847	6,845	8,075	9,261
BVPS (VND)	25,347	29,397	28,644	34,089	40,764	48,624
Equity/Total Assets	7.1%	7.7%	7.5%	7.7%	7.9%	8.1%
Adjusted ROA	1.3%	1.4%	1.7%	1.7%	1.7%	1.7%
Adjusted ROE	18.9%	19.2%	22.6%	21.8%	21.6%	20.7%
P/E	25.3	21.4	15.1	12.9	10.9	9.5
P/B	4.4	3.8	3.1	2.6	2.2	1.8
DPS (VND)	800	1,200	1,200	1,400	1,400	1,400
Dividend yield	0.9%	1.4%	1.4%	1.6%	1.6%	1.6%

2022's PBT grew by 36.4%

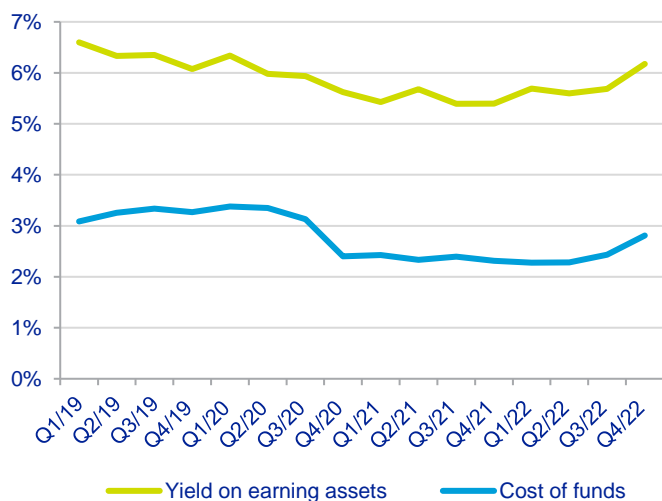
(Unit: VND billion)	2021	2022	+/-	Comments
Net interest income	42,400	53,246	+25.6%	Driven by credit growth of 18.8% (industry: 14.2%) and NIM expanding 0.24 pts to 3.46% thanks to surged interbank rates and matured Covid-19 loan interest support package.
Non-interest income	14,324	14,836	+3.6%	Payment and off-balance sheet collection weakened (-47% y/y and -18% y/y), despite positive foreign exchange trading (+32% y/y).
Total income	56,724	68,083	+20.0%	
Operating expenses	(17,574)	(21,251)	+20.9%	Asset costs and admin costs increased sharply (+16% y/y and +49.5% y/y) due to increased investment in digital transformation and customer acquisition. CIR ratio was still kept at a good level of 31%, similar to the previous year.
Profits before provisioning	39,149	46,832	+19.6%	
Provision expenses	(11,761)	(9,464)	-19.5%	Provision costs are reduced because there is no longer need to make provisions for loans restructured due to Covid-19. However, VCB still made a provision of VND10,840 billion for interbank loans.
PBT	27,389	37,368	+36.4%	

Source: VCB, ACBS

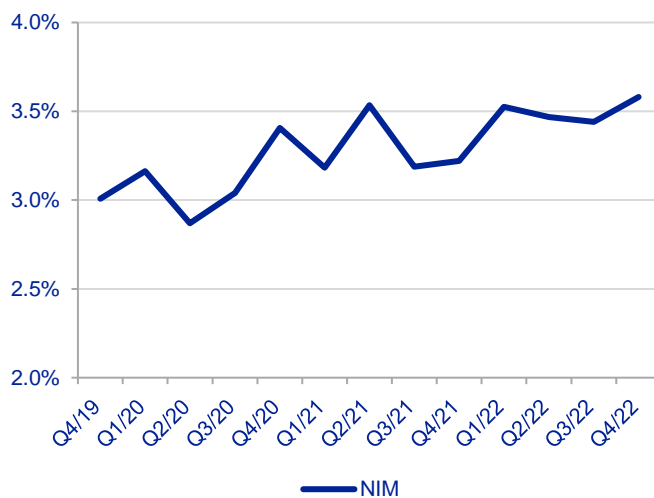
Rising asset yields helped offset the CASA ratio slump to 33.9% from 35.7% at the beginning of 2022.

Contrary to many other banks, the liquidity stress in banking system caused interest rates to rise sharply in Q3-Q4/22 period had a positive impact on VCB's NIM thanks to its strong mobilization ability and its best liquidity position in the system.

Asset yields improved strongly...



...helped NIM expand



Source: VCB, ACBS

Positive outlook in 2023 despite slower profit growth

Interest rates decrease slightly (about 0.5 pts) since the beginning of 2023. The falling interest rate environment is not favorable for VCB's NIM as VCB is a net interbank lender (end of Q4/22: VND92,000 billion).

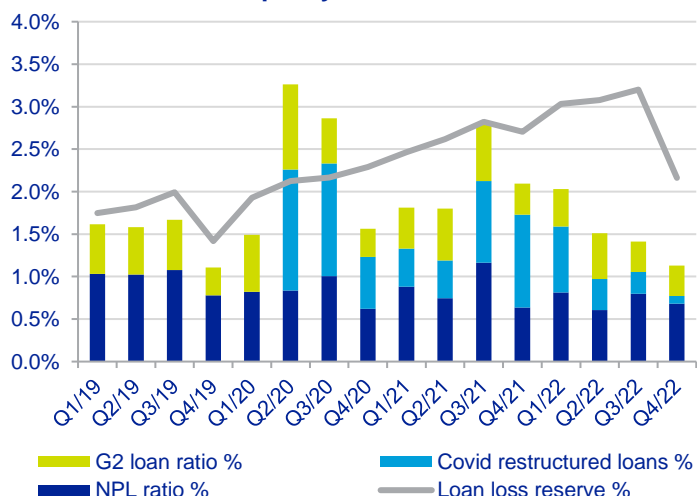
However, we expect VCB's NIM in 2023 to be at **3.45%**, equivalent to 2022 thanks to an improvement in lending yield due to an increase in the personal loan proportion. CASA also has room to improve when monetary policy is less tight in 2023, although it might not returned to the peak in 2021.

Operating expenses can be better controlled in 2023. Abundant system liquidity from the beginning of 2023 will help banks reduce promotion and marketing expenses to attract depositors. We expect CIR in 2023 to improve, falling to **29.2%** from 31.2% in 2022.

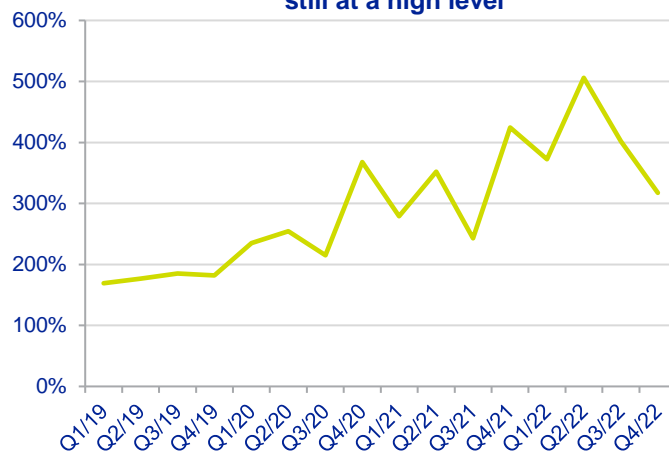
Although we are still optimistic about VCB's earnings prospects in 2023, we still need to pay attention to asset quality despite the fact that VCB has always been among the banks with the lowest NPL ratio in the system (2022-end: 0.68%). A downturn in the real estate market and the taking over of Construction Bank will begin to put pressure on VCB's asset quality and provision expenses. Currently, the proportion of VCB's loans to the construction sector is not too large of about **7%**. In addition, renewable energy enterprises that have not yet finalized the electricity selling price plan with EVN also have the potential to turn into NPLs in this field.

One positive point is that VCB's thick loan loss reserve buffer will help the bank have room to dissolve NPLs arisen and keep asset quality at a good level. NPL coverage ratio has dropped sharply since its peak in Q2/22 but is still at the highest level in the system of **317%**. In addition, a provision of **VND10,840 billion** for interbank loans is also a potential reverse provisioning when VCB recovers the loans.

Asset quality was well-controlled



NPL coverage ratio decreased but still at a high level

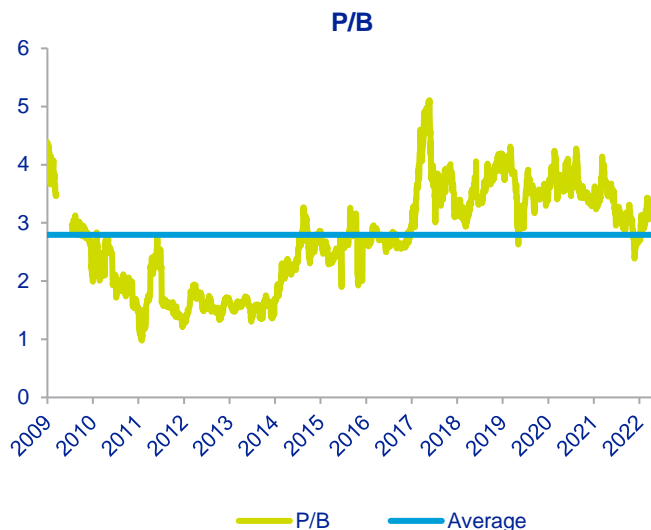
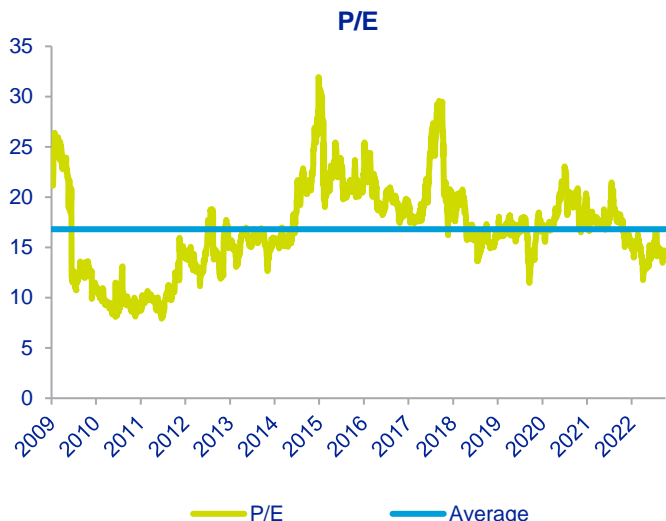


Source: VCB, ACBS

We forecast VCB's PBT in 2023 to reach **VND44,222 billion**, up **18.3% y/y**, higher than the management's minimum growth target of 12%.

The stock price remains suitable for investors who prefer stability

Currently, VCB stock is trading at P/E of **14.0x** and P/B of **3.1x**, not much different from VCB's historical average. However, this is still lower than the post-restructuring period of the banking system since the end of 2016.



Source: Fiinpro, ACBS

We reiterate our **BUY** recommendation with 1-year target price of **VND101,000/share** using the discounted residual income method. Our target price equates to a target P/E and P/B of 2023 of **14.8x** and **3.0x** respectively.

VCB continues to plan a private placement of 6.5% to raise equity in 2023, however, we believe that market condition are not favorable for VCB to complete in this year and therefore, we have not included this factor to the pricing model.

The prospect of sustainable profit growth in the context of macro volatility makes VCB stock still a suitable choice for investors looking for stability. In addition, policy changes in less tighten direction and the recovery of macro situation will be positive catalysts for VCB's stock price in the short-term.

Share price downside risks include:

- (1) The prolonged congestion of capital flows of real estate enterprises caused a crisis in this field and caused VCB's NPLs to increase sharply;
- (2) Inflation in the US remained high, causing the FED to sharply increase the USD interest rate and put pressure on the macro as well as the Vietnamese banking system.

(Unit: VND billion, unless otherwise stated)	Market price (VND):	88,200	Target price (VND):	101,000	Market cap (VND bn):	417,408	
	2019	2020	2021	2022	2023F	2024F	2025F
INCOME ITEMS							
Net interest income	34,577	36,285	42,400	53,246	63,965	74,043	85,339
Net fee & commission income	4,307	6,607	7,407	6,839	7,181	7,899	7,305
Other non-interest income	6,846	6,170	6,917	7,997	8,941	10,910	12,955
Total operating income	45,730	49,063	56,724	68,083	80,088	92,853	105,599
Growth (%)	16.4%	7.3%	15.6%	20.0%	17.6%	15.9%	13.7%
Operating expenses	(15,818)	(16,038)	(17,574)	(21,251)	(23,376)	(26,181)	(28,799)
Profit before provision & tax	29,913	33,024	39,149	46,832	56,712	66,672	76,800
Provision for credit losses	(6,790)	(9,975)	(11,761)	(9,464)	(12,490)	(14,489)	(16,807)
Profit before tax	23,122	23,050	27,389	37,368	44,222	52,184	59,994
Profit attributable to shareholders	15,901	16,523	19,537	27,673	32,393	38,215	43,827
Growth (%)	25.1%	3.9%	18.2%	41.6%	17.1%	18.0%	14.7%
Adjusted EPS (VND)	4,287	4,455	5,268	5,847	6,845	8,075	9,261
BALANCE SHEET ITEMS							
Outstanding loans & corporate bonds	731,514	826,224	947,203	1,131,714	1,314,265	1,524,547	1,768,475
Growth (%)	16.2%	12.9%	14.6%	19.5%	16.1%	16.0%	16.0%
Customer deposit	928,451	1,032,114	1,135,324	1,243,468	1,429,989	1,658,787	1,924,193
Growth (%)	15.8%	11.2%	10.0%	9.5%	15.0%	16.0%	16.0%
Total assets	1,222,719	1,326,230	1,414,673	1,813,815	2,091,332	2,431,732	2,827,154
Shareholder's equity	80,800	94,010	109,030	135,558	161,325	192,915	230,116
BVPS (VND)	21,785	25,347	29,397	28,644	34,089	40,764	48,624
KEY RATIOS							
NPL	0.8%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%
NPL coverage	179%	368%	424%	317%	301%	301%	301%
NIM	3.1%	3.0%	3.2%	3.5%	3.4%	3.4%	3.4%
CIR	34.6%	32.7%	31.0%	31.2%	29.2%	28.2%	27.3%
Equity / Total Assets	6.6%	7.1%	7.7%	7.5%	7.7%	7.9%	8.1%
Adjusted ROA	1.4%	1.3%	1.4%	1.7%	1.7%	1.7%	1.7%
Adjusted ROE	22.3%	18.9%	19.2%	22.6%	21.8%	21.6%	20.7%
P/E (x)	26.3	25.3	21.4	15.1	12.9	10.9	9.5
P/B (x)	5.2	4.4	3.8	3.1	2.6	2.2	1.8
Dividend yield	0.9%	0.9%	1.4%	1.4%	1.6%	1.6%	1.6%

CONTACTS

Ho Chi Minh City Head Office

117 Nguyen Dinh Chieu, Dist. 3, Ho Chi Minh City
Tel: (+84 28) 7300 7000
Fax: (+84 28) 7300 3751

Hanoi Office

10 Phan Chu Trinh, Hoan Kiem Dist., Ha Noi
Tel: (+84 4) 3942 9395
Fax: (+84 4) 3942 9407

RESEARCH DEPARTMENT

Associate Director

Giao Nguyen

(+84 28) 7300 7000 (x1041)
giaonbt@acbs.com.vn

Manager – Properties

Truc Pham

(+84 28) 7300 7000 (x1043)
trucptt@acbs.com.vn

Manager – Financials

Hung Cao

(+84 28) 7300 7000 (x1049)
hungcv@acbs.com.vn

Associate – Strategy

Hoa Nguyen

(+84 28) 7300 7000 (x1050)
hoant@acbs.com.vn

Associate – Oil & Gas

Hung Phan

(+84 28) 7300 7000 (x1044)
hungpv@acbs.com.vn

Associate – Consumer-related, Technology

Chi Luong

(+84 28) 7300 7000 (x1042)
chiltk@acbs.com.vn

Associate – Consumer-related, Technology

Trung Tran

(+84 28) 7300 7000 (x1045)
trungtn@acbs.com.vn

Associate – Energy

Toan Pham

(+84 28) 7300 7000 (x1051)
toanpd@acbs.com.vn

Associate – Industrials

Huy Huynh

(+84 28) 7300 7000 (x1048)
huyha@acbs.com.vn

Associate – Derivatives, Macro

Minh Trinh Viet

(+84 28) 7300 7000 (x1046)
minhtvh@acbs.com.vn

Associate – Technical

Phuoc Luong

(+84 28) 7300 7000 (x1047)
phuocld@acbs.com.vn

Analyst – Technical

Huu Vo

(+84 28) 7300 7000 (x1052)
huvvp@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director

Huong Chu

(+84 28) 7300 7000 (x1083)
huongctk@acbs.com.vn

Customer Support

Institutional Client

Thanh Le

(+84 28) 7300 7000 (x1089)
thanhlt@acbs.com.vn

Trader

Huynh Nguyen

(+84 28) 7300 7000 (x1088)
huynhntn@acbs.com.vn

Trader

Thanh Tran

(+84 28) 7300 7000 (x1085)
thanhtt@acbs.com.vn

Trader

Thao Nguyen

(+84 28) 7300 7000 (x1087)
thaont@acbs.com.vn

Trader

Dung Ly

(+84 28) 7300 7000 (x1084)
dungln.hso@acbs.com.vn

Trader

Nhi Nguyen

(+84 28) 7300 7000 (x1086)
nhinp@acbs.com.vn

DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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