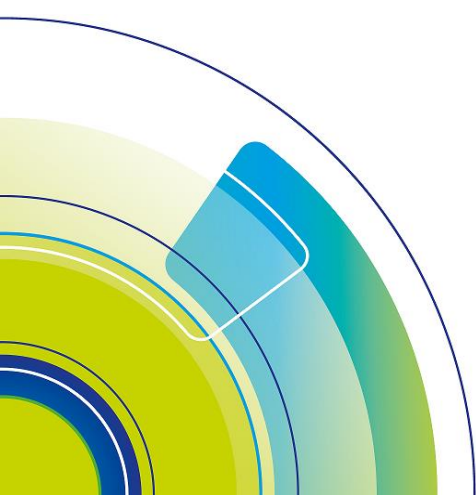




Update VCB – OUTPERFORM

July 2, 2024



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Recommendation **OUTPERFORM**

HOSE: VCB

Banking

Current price (VND) **86,100**

Target price (VND) **98,000**

Expected share price return +13.8%

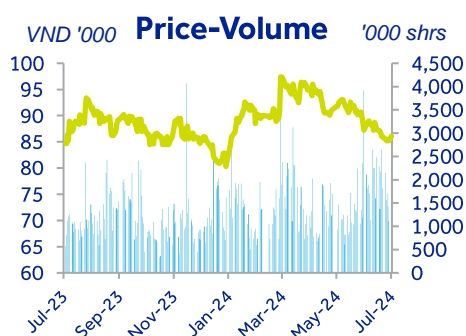
Expected dividend yield 0.0%

Expected total return **+13.8%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	7.2	-2.3	-10.2	0.6
Relative	-4.7	-1.1	-7.8	-12.6

Source: Bloomberg



Ownership

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

Stock Statistics

02-July-24

Bloomberg code

VCB VN

52-week range (VND) 80,100-100,500

No. of shares (m) 5,589

Mkt cap (VND bn) 481,221

Mkt cap (USD m) 18,898

Foreign room left (%) 6.7

Est. free float (%) 25.2

3m avg daily vol (shs) 1,480,513

VND/USD 25,464

Index: VNIndex / HNX 1254.56/238.56

BANK FOR FOREIGN TRADE OF VIETNAM (VCB)

We raise VCB's target price by 12% to VND98,000/share and upgrade our recommendation from NEUTRAL to OUTPERFORM. Our target price is equivalent to 12-month target P/E and P/B of 16.4x and 2.3x, respectively. VCB's profit outlook improves thanks to credit recovery, expanded NIM and well-managed opex.

Due to the high base of last year's period and the previous quarter, PBT in Q1/24 decreased 4.5% y/y and 8.3% q/q, reached VND10,718 billion. However, we see many positive points in Q1/24 business results when most business segments recovered compared to Q4/23.

NIM Q1/24 decreased by 5 bps y/y but increased by 26 bps q/q, reaching 3.19%. We expect VCB's NIM will continue to recover thanks to COF continuing to decline as last year's high-interest deposits matured, while VCB's lending rates are currently at a notably low level (approximately 6.5%) and there is minimal pressure for them to be reduced further.

Although outstanding credit balance decreased by 0.3% YTD in Q1/24, there were signs of improvement in Q2/24. It was shared by the management that as of June 17, credit growth reached 2.1% YTD and expected to reach 4.3% YTD growth by the end of Q2/24 and 12% for the whole year 2024.

NFI in Q1/24 decreased by 25.8% y/y but increased by 1.4% q/q. We forecast that NFI for the whole year 2024 will increase by 5.5% y/y thanks to the improvement of the payment and off-balance sheet loan collection segments following the recovery of the economy, while the banca segment is forecasted to continue to face difficulties.

Operating expenses in Q1/24 decreased by 4.2% y/y and decreased by 12.1% q/q. We expect VCB will strictly manage opex in 2024 (- 4.0% y/y) to protect their bottom line profits. CIR (not deducting bonus and welfare fund provisioning) decreased from 31-32% in previous years to 27.9% and is among the most efficient banks in the industry.

Provision costs are forecast to increase by 98.6% y/y in 2024 because in the last year, VCB reversed-provisioning more than VND5,100 billion for loans to another credit institution (likely to be Construction Bank). We also note that VCB still has nearly VND5,000 billion in provision balance for loans to another credit institution and this is a potential source of reversed-provisioning for VCB in the future.

We forecast that PBT in 2024 will reach VND45,394 billion, an increase of **10.1%** y/y.

(VND bn)	2021	2022	2023	2024F	2025F	2026F
Credit growth	15.1%	18.8%	10.7%	12.0%	15.0%	13.0%
NIM	3.22%	3.46%	3.06%	3.22%	3.33%	3.33%
NFI proportion	25.3%	21.8%	20.8%	19.7%	18.5%	17.6%
TOI growth	15.6%	20.0%	-0.5%	11.5%	14.2%	11.3%
CIR	31.0%	31.2%	32.4%	27.9%	26.8%	27.0%
Net credit costs	-1.31%	-0.90%	-0.38%	-0.67%	-0.80%	-0.80%
Profit before tax	27,389	37,368	41,244	45,394	50,828	56,081
growth	18.8%	36.4%	10.4%	10.1%	12.0%	10.3%
Profit attributable	19,537	27,673	29,742	33,759	37,507	41,384
Adjusted EPS (VND)	5,268	5,847	5,321	6,040	6,302	6,953
BVPS (VND)	29,397	28,644	29,507	35,547	45,780	51,533
Adjusted ROA	1.4%	1.7%	1.6%	1.7%	1.7%	1.7%
Adjusted ROE	19.2%	22.6%	19.8%	18.6%	15.9%	14.3%
CAR (Basel 2)	9.5%	10.0%	11.4%	12.4%	14.9%	15.0%
P/E	24.6	17.4	16.2	14.3	12.8	11.6
P/B	4.4	3.5	2.9	2.4	1.8	1.6
DPS (VND)	1,200	1,200	-	-	-	1,200
Dividend yield	1.4%	1.4%	0.0%	0.0%	0.0%	1.4%

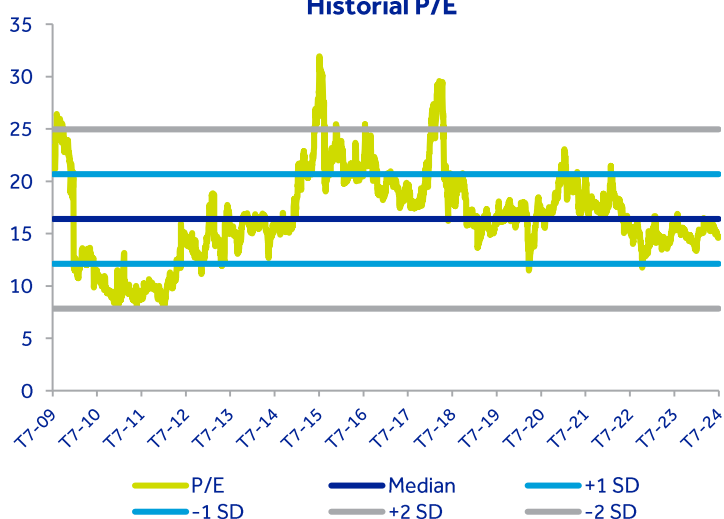
Estimated issuance price and impact of 6.5% private placement deal

VCB is preparing for a private placement of 6.5% of charter capital to strategic shareholder Mizuho and a number of other shareholders. The deal is expected to be completed in Q1/25. In 2019, VCB issued a similar deal and the issuance price at that time was equivalent to a trailing 12-month pre-money P/E of 16.0x and a post-money P/B of 2.8x. Based on the valuation of the previous deal, we estimate that issuance price this time will be around **VND96,000-100,000 per share**.

The issuance will have many positive impacts on VCB's CAR as well as its credit growth potential. Specifically, we expect CAR to improve by about 2% once the deal is completed. Although VCB's current CAR (as of December 31, 2023: 11.4%) is enough to meet the minimum requirement of 8%, improving the tier-1 capital will help VCB increase its credit supply capacity to the economy while still meeting the more stringent capital standards of Basel 3 in the future, while also creating room to pay cash dividends in the coming years.

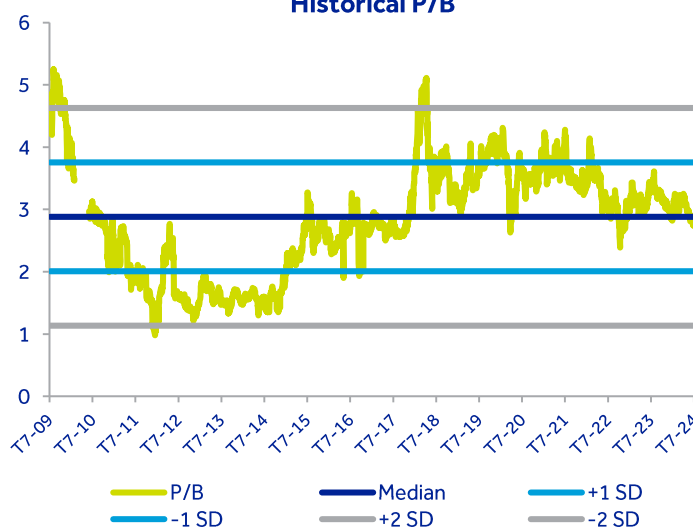
However, with an increase of nearly 20% in equity capital, VCB will face pressure to maintain its fairly good profitability. We forecast that VCB's ROE will decrease from the current 20% to 15% by 2026 – equivalent to the industry average.

Historial P/E



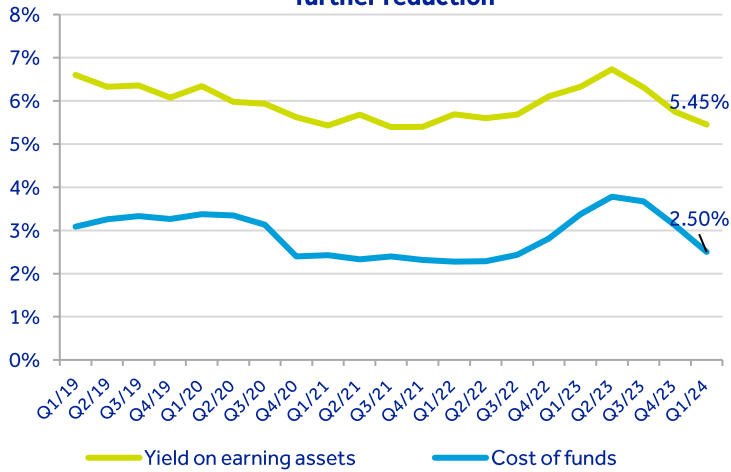
Source: FiinPro-X, ACBS

Historical P/B



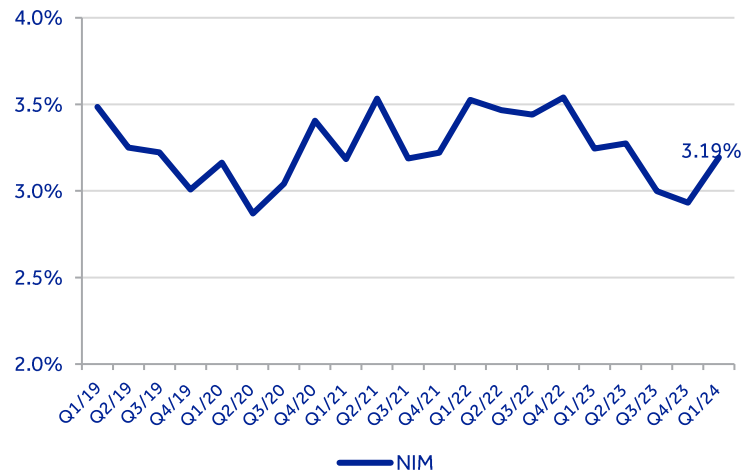
Source: FiinPro-X, ACBS

Cost of funds fell rapidly but still had room for further reduction



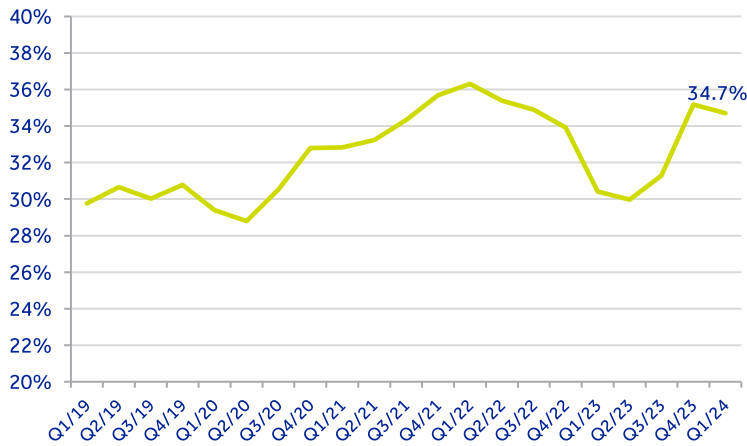
Source: VCB, ACBS

NIM recovered



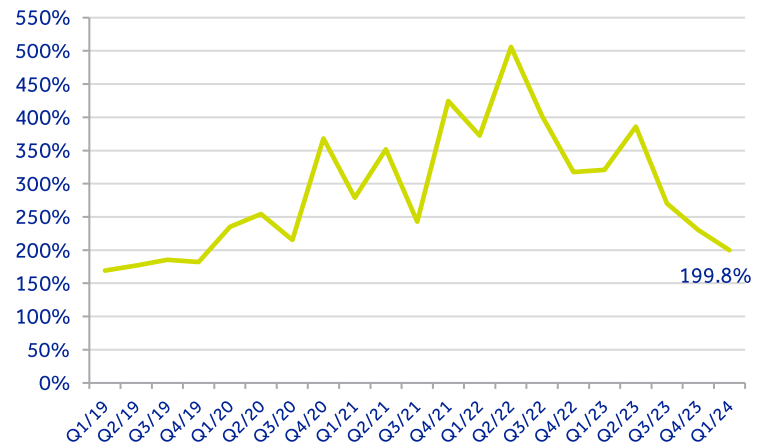
Source: VCB, ACBS

CASA ratio recovered thanks to low interest rates



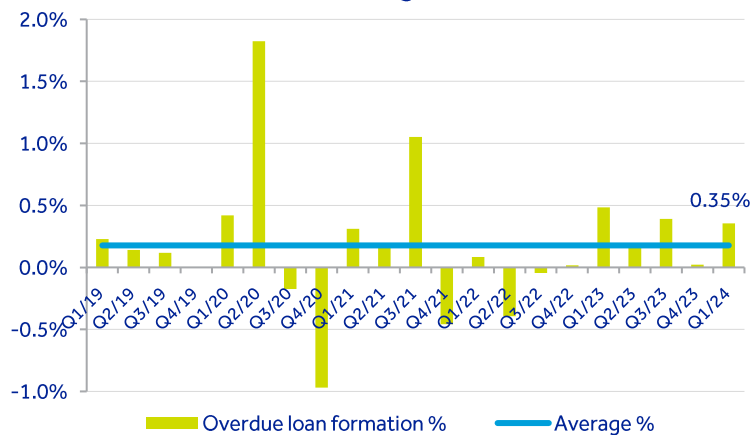
Source: VCB, ACBS

NPL coverage ratio decreased to pre-Covid levels



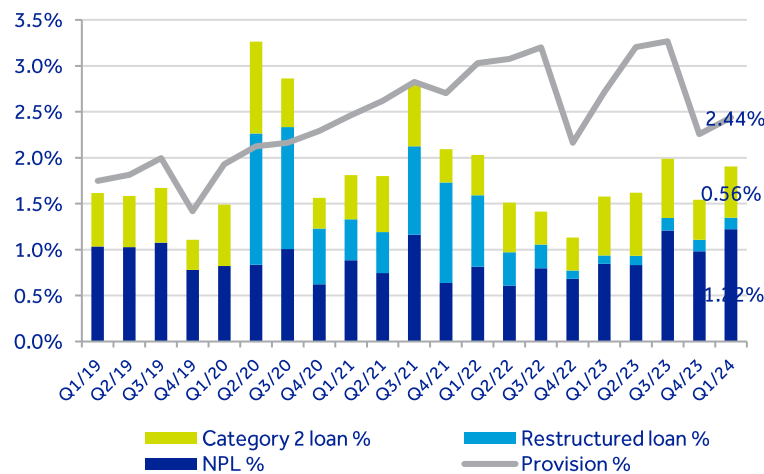
Source: VCB, ACBS

Overdue loan formation (including restructured loan) rose again in Q1/24



Source: VCB, ACBS

Chart Title



Source: VCB, ACBS

(Unit: VND billion, unless otherwise stated)	Market price (VND):	86,100	Target price (VND):	98,000	Market cap (VND bn):	481,221	
INCOME ITEMS	2020	2021	2022	2023	2024F	2025F	2026F
Net interest income	36,285	42,400	53,246	53,621	60,619	70,229	79,057
Net fee & commission income	6,607	7,407	6,839	5,780	6,069	5,279	4,265
Other non-interest income	6,170	6,917	7,997	8,323	8,809	10,699	12,618
Total operating income	49,063	56,724	68,083	67,723	75,496	86,206	95,941
Growth (%)	7.3%	15.6%	20.0%	-0.5%	11.5%	14.2%	11.3%
Operating expenses	(16,038)	(17,574)	(21,251)	(21,915)	(21,038)	(23,142)	(25,919)
Profit before provision & tax	33,024	39,149	46,832	45,809	54,458	63,064	70,022
Provision for credit losses	(9,975)	(11,761)	(9,464)	(4,565)	(9,064)	(12,236)	(13,941)
Profit before tax	23,050	27,389	37,368	41,244	45,394	50,828	56,081
Growth (%)	-0.3%	18.8%	36.4%	10.4%	10.1%	12.0%	10.3%
Profit after tax after MI	18,451	21,919	29,899	33,033	36,357	40,710	44,917
Profit attributable to shareholders	16,523	19,537	27,673	29,742	33,759	37,507	41,384
Adjusted EPS (VND)	4,455	5,268	5,847	5,321	6,040	6,302	6,953
BALANCE SHEET ITEMS	2020	2021	2022	2023	2024F	2025F	2026F
Outstanding loans & corporate bonds	826,224	947,203	1,131,714	1,252,049	1,405,737	1,620,900	1,835,346
Growth (%)	12.9%	14.6%	19.5%	10.6%	12.3%	15.3%	13.2%
Customer deposits	1,032,114	1,135,324	1,243,468	1,395,698	1,535,267	1,704,147	1,908,644
Growth (%)	11.2%	10.0%	9.5%	12.2%	10.0%	11.0%	12.0%
Total assets	1,326,230	1,414,673	1,813,815	1,839,613	2,040,856	2,317,316	2,596,949
Shareholder's equity	94,010	109,030	135,558	164,919	198,678	272,485	306,727
BVPS (VND)	25,347	29,397	28,644	29,507	35,547	45,780	51,533
KEY RATIOS	2020	2021	2022	2023	2024F	2025F	2026F
NPL	0.6%	0.6%	0.7%	1.0%	1.0%	1.0%	1.0%
NPL coverage	368%	424%	317%	230%	206%	179%	158%
NIM	3.0%	3.2%	3.5%	3.1%	3.2%	3.3%	3.3%
CIR	32.7%	31.0%	31.2%	32.4%	27.9%	26.8%	27.0%
Adjusted ROA	1.3%	1.4%	1.7%	1.6%	1.7%	1.7%	1.7%
Adjusted ROE	18.9%	19.2%	22.6%	19.8%	18.6%	15.9%	14.3%
CAR (Basel 2)	9.6%	9.5%	10.0%	11.4%	12.4%	14.9%	15.0%
P/E (x)	29.1	24.6	17.4	16.2	14.3	12.8	11.6
P/B (x)	5.1	4.4	3.5	2.9	2.4	1.8	1.6
Dividend yield	0.9%	1.4%	1.4%	0.0%	0.0%	0.0%	1.4%

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Our Recommendation System

BUY	: total stock returns (including dividend yield) over the next 12 months are forecast to be 20% or higher.
OUTPERFORM	: total stock returns (including dividend yield) over the next 12 months are forecast to be from 10 to 20%.
NEUTRAL	: total stock returns (including dividend yield) over the next 12 months are forecast to be between -10 and 10%.
UNDERPERFORM	: total stock returns (including dividend yield) over the next 12 months are forecast to be from -10 to -20%.
SELL	: total stock returns (including dividend yield) over the next 12 months are forecast to be -20% or lower.

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