Shinhan Securities



Bank for Foreign Trade of Vietnam

[Vietnam / Banking]

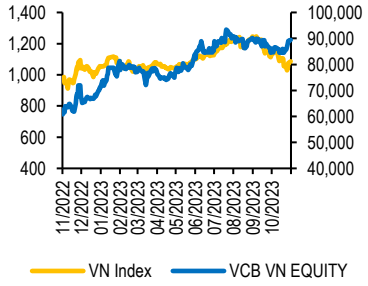
Bloomberg Code (VCB VN) | Reuters Code (VCB.HM)

BUY

Update report

Target price (2024)	**VND 107,530**
Current price (05/11/23)	VND 89,400
Upside/downside	20.3%

VNINDEX			1,086
P/E thị trường (23F, x)			11.2
Market Cap (bn VND)			499,665
Outstanding shares (mn)			5,589
Free-Floating (mn)			1,408
Free floating (%)			25.2
52-Wk High/Low (VND)			59,526/93,700
90-day avg. trading volume (mn)			1.17
90-day avg. turnover (bn VND)			107
Foreign ownership (%)			0.8
Major shareholders (%)		SBV	63.34
		Mizuho	12.7
Performance	3T	6T	12T
Absolute (%)	-0.8	17.6	47.0
Relative to VN-Index (%)	10.7	13.2	38.2



Source: Bloomberg

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Advantage from high provision buffer

Updated with BUY recommendation, target price 107,530 VND

Joint Stock Commercial Bank for Foreign Trade of Vietnam (HoSE: VCB) is one of the "Big 4" state-owned banks with the largest market capitalization in the banking industry. VCB has always maintained the advantage of being the most efficient bank, with asset quality improving over the years, and constantly making efforts in digital transformation. With the residual income (RI) method and comparison method based on the P/B index, we update the target price for VCB for 2024 at 107,530 VND, with potential upside at 20.3%.

Business results in 9M2023

- VCB's interest income segment grew modestly in Q3/2023 due to credit growth in 9M/2023 only reaching 3.8% Ytd and NIM shrinking. VCB's NIM last twelve months in Q3/2023 was at around 3.19%, decreased 14bps compared to Q4/2022. VCB's customer deposits reached more than 1,349 billion VND (+8.5% Ytd). Net interest income in Q3/2023 reached 12,596 billion VND (-10.16% QoQ, -7.82% YoY). Accumulated in 9M/2023, VCB's net interest income reached 40,820 billion VND (+6.2% YoY).
- VCB's non-interest income in 9M/2023 continues to face many difficulties. Income from service activities in Q3/2023 reached 891 billion (-20% YoY, accumulated 9M/2023 -11.95% YoY). Foreign exchange business activities showed a brighter picture in Q3/2023 when maintained at VND 1,582 billion (-0.37% YoY, 9M/2023 grew at +4.08% YoY). VCB's non-interest income stayed almost flat in 9M/2023.
- VCB's Non-performing loan (NPL) increased by more than 184% compared to the end of 2022, up 47.12% compared to Q2/2023. However, thanks to the loan loss coverage ratio at over 300%, VCB only recorded provision expenses in 9M/2023 of approximately VND 6,052 billion (-22.26% YoY). In addition, VCB also recorded the reversal of the interbank provision made at the end of Q4/2022.
- While total operating income in 9M/2023 only increased by about 4.8% YoY, VCB's pre-tax profit in 9M/2023 still grew well thanks to the reduction in credit risk provision expenses, reaching VND 29,550 billion (+18.49% YoY) and completed 70% of the year's profit plan.

Outlook for the rest of 2023-2024

We expect lending interest rates will likely remain at current level and there will be little room for further reduction. Therefore, VCB's NIM will facing less pressured in 2024. We lower our forecast for credit growth in 2023 to 8%. In 2024, we expect the bank to recover clearly with a growth rate of 13%. VCB's 2023 EBT can reach around VND 42,130 billion, closely following the bank's target growth plan of about 15% YoY; next year we expect PBT of VCB could grew about 18% YoY.

Risk: (1) Lending interest rates continue to decrease and low credit growth, causing NIM to continue to shrink. (2) Rapidly increasing NPL puts pressure on risk provision costs.

Year	2020	2021	2022	2023F	2024F
Interest income (VNDbn)	36,285	42,273	53,246	56,181	62,374
Non-interest income (VNDbn)	12,778	14,357	14,836	14,743	18,289
Total operating income (VNDbn)	**49,063**	**56,630**	**68,083**	**70,924**	**80,663**
Provision and other expenses (VNDbn)	(26,013)	(29,144)	(30,724)	(28,794)	(30,904)
Profit before tax (VNDbn)	**23,050**	**27,486**	**37,359**	**42,130**	**49,759**
Credit growth (%)	13.99%	15.09%	18.86%	8.00%	13.00%
NIM (%)	2.92%	3.15%	3.40%	3.16%	3.26%
ROE (%)	**21.08%**	**21.64%**	**24.19%**	**22.22%**	**21.99%**

Source: Fiinpro, Company data, Shinhan Securities Vietnam

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Outlook for 2023-2024

Year	9M2023	% yoy	2023F	% yoy	2024F	%yoy	Note
Net Interest Income (VNDbn)	40,819	*6.2%*	56,181	5.5%	62,374	11.0%	We forecast that VCB's NIM may continue to be under pressure in the rest of 2023 due to lowering loan interest rates to stimulate credit growth. Credit growth in 2023 will likely only reach 8%. In 2024, loan demand recovers and NIM gradually improves again. In addition, CASA returning to more than 30% in Q3/2023 will also be an important factor to help the bank's capital costs decrease in the 2023-2024 period.
Non-interest Income (VNDbn)	10,944	*-0.3%*	14,743	-0.6%	18,289	24.1%	We expect the bank's fee income to return to double-digit growth in 2024. After a period of high NPL, when the economy recovers, VCB can increase other income from written-off loan
Total Operating Income (VNDbn)	51,765	*4.8%*	70,924	4.2%	80,663	13.7%	
Profit Before Tax (VNDbn)	29,550	*10.0%*	42,130	12.8%	49,759	18.1%	Based on the trend of operating costs, we forecast that VCB's CIR will continue to decrease and remain below 30%. We assume VCB will continue to maintain a cautious policy in NPL provisioning.
Net Income (VNDbn)	23,695	*10.0%*	33,704	12.7%	39,807	18.1%	
Non-performing ratio- NPL (%)	1.2%		1.2%		1.2%		Banks will usually record large provisioning costs in Q4 every year and actively write off NPL around this time. Therefore, it is likely that NPL at the end of Q4/2023 may decrease slightly. However, we conservatively keep the bank's NPL ratio around 1.2% for 2023 and 2024.
Loan Loss Coverage Ratio – LLR (%)	270.1%		237.8%		237.8%		We assume the loan loss coverage ratio is around 240%.
Total Credit Growth – Ytd (%)	*3.8%*		*8.0%*		*13.0%*		
Customer Deposit Growth – Ytd (%)	*8.5%*		*10.0%*		*10.0%*		
Net Interest Margin – NIM (TTM %)	*3.19%*		*3.16%*		*3.26%*		We expect VCB's NIM in 2023 may decrease slightly to 3.16% before recovering to 3.26% in 2024.

Valuations and recommendations

Valuation

We use the residual income (RI) method and the P/B valuation method with the proportions at 60%-40% respectively.

The target price for the stock for 2024 is 107,530 VND.

1) In the short term, we use a target P/B of 3.0x (1 standard deviation lower than VCB's 5-year average P/B). With BVPS forecast in 2023 at 35,189 VND, VCB's target price in 2024 is expected to be about 105,568 VND.

2) For the residual income method, the stock price in 2024 is estimated to be 108,845 VND.

Cost of Equity (%)	
Cost of Equity (%)	**10.4**
Risk-free rate (%)	3.0
Equity risk premium (%)	9.57
Beta	0.77

RI Method

(Unit: VNDbn)	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Cost of equity	**10.4**	**10.4**	**10.4**	**10.4**	**10.4**
Cost of equity after 2027					**10.4**
Net income	33,704	39,807	49,845	59,115	72,433
Residual income (RI)	17,962	21,016	27,316	31,969	39,645
PV of RI	**17,962**	**19,038**	**22,417**	**23,767**	**26,700**

Terminal value of RI (VNDbn)	**521,782**
Terminal growth (%)	2.00%
PV of terminal value (VNDbn)	351,410
PV of RI (VNDbn)	91,922
Beginning equity (bn VND)	165,109
Total value (bn VND)	**608,442**
Total outstanding shares (bn)	5.6
Target price (VND)	**108,845**

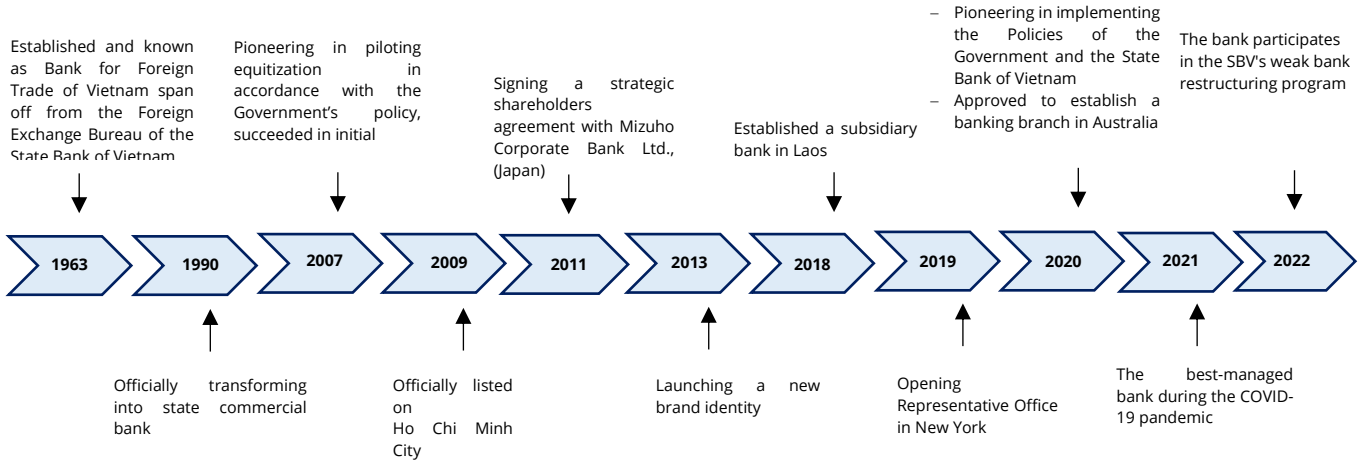
Valuation Summary

Method	Weight	Target price (VND)
Residual income	60%	**108,845**
P/B target (3.0x)	40%	**105,568**
Target price (VND)	**107,534**	

Source: Shinhan Securities Vietnam

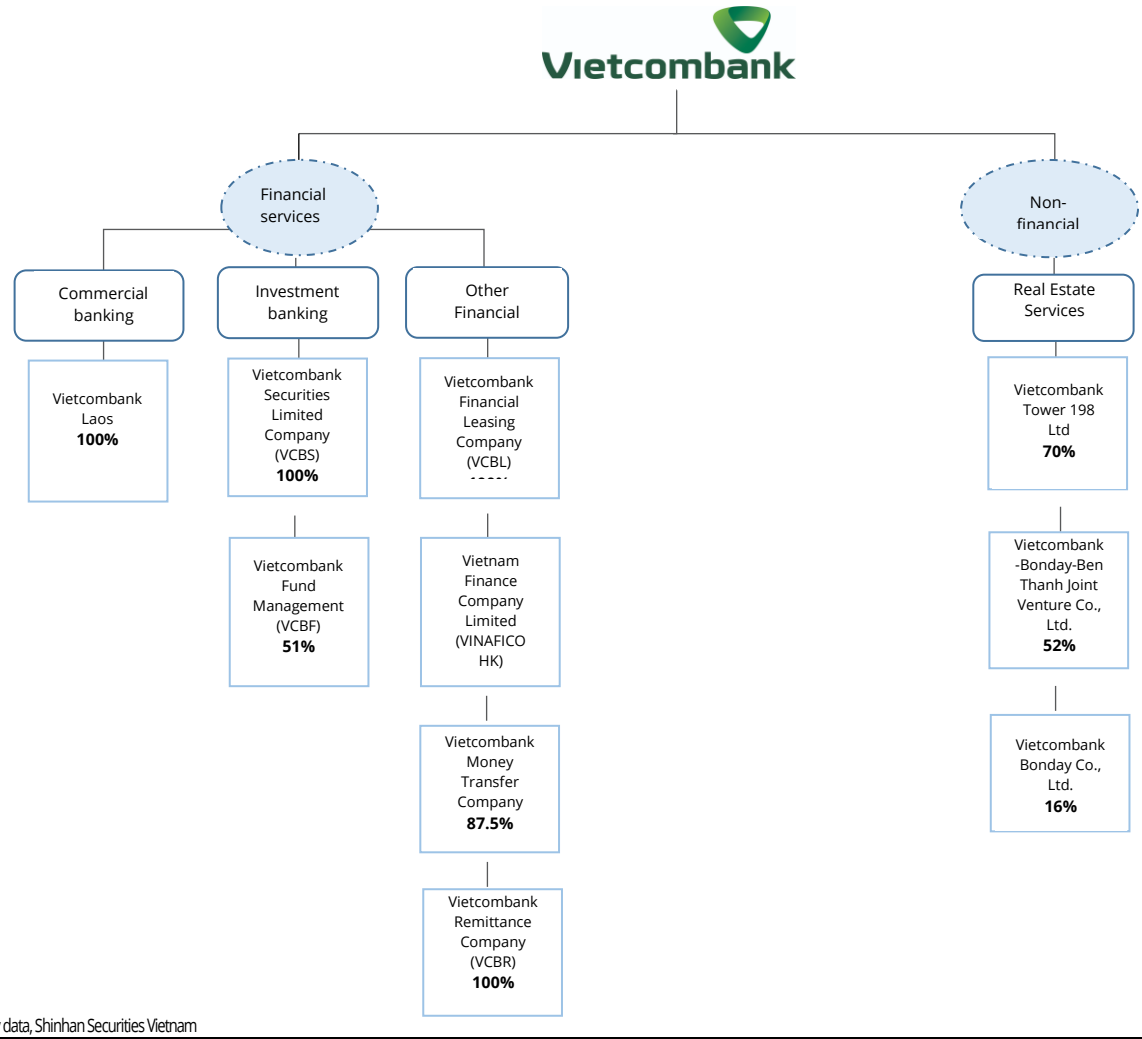
Business overview

History



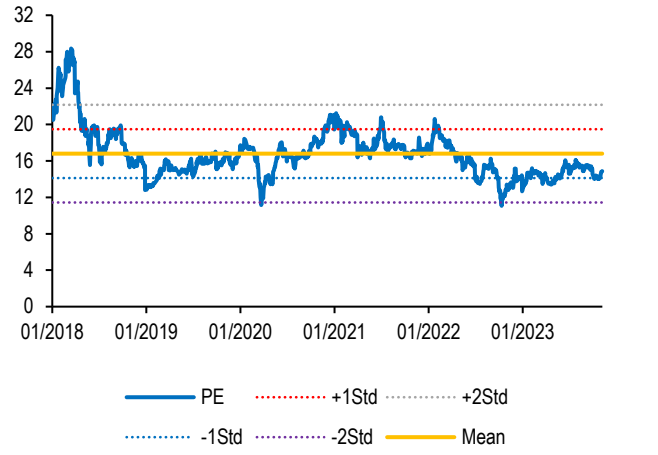
Subsidiaries

Vietcombank owns many subsidiaries operaitng in financial and non-financial services, including:



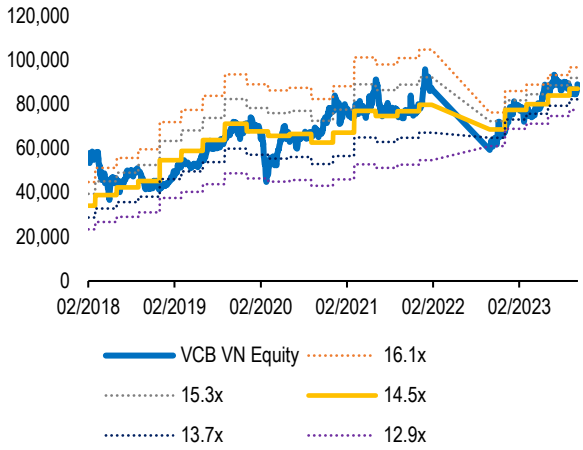
Source: Company data, Shinhan Securities Vietnam

PER of VCB



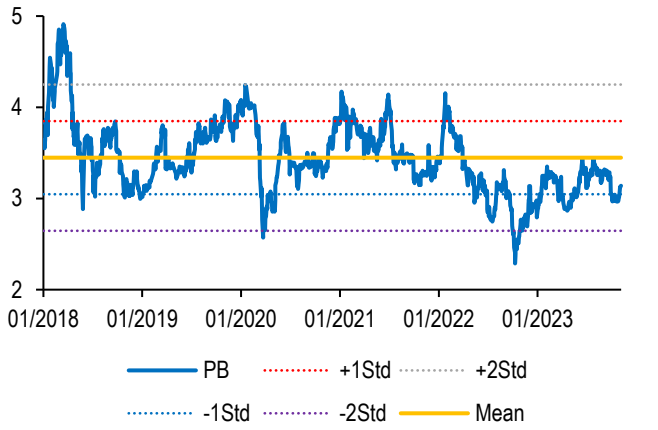
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band of VCB



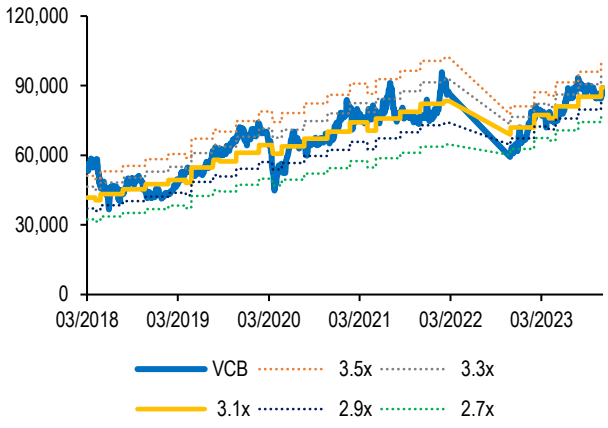
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of VCB



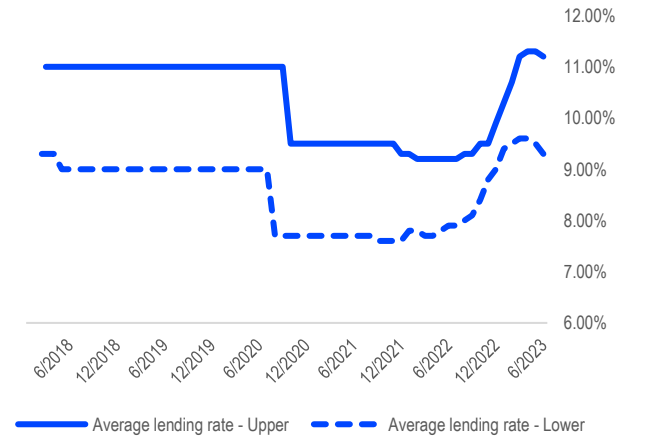
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band of VCB



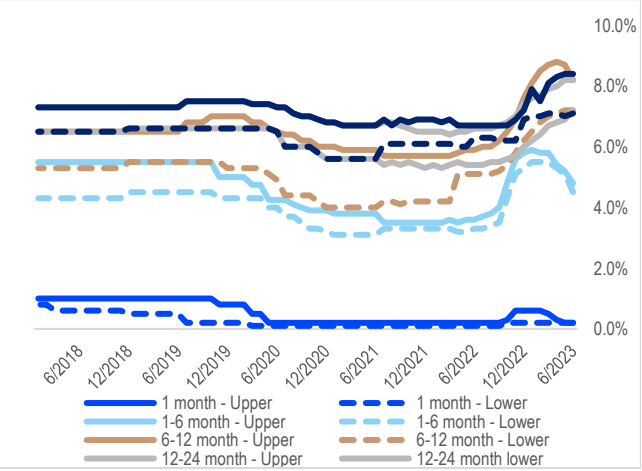
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Average loan interest rate in Vietnam



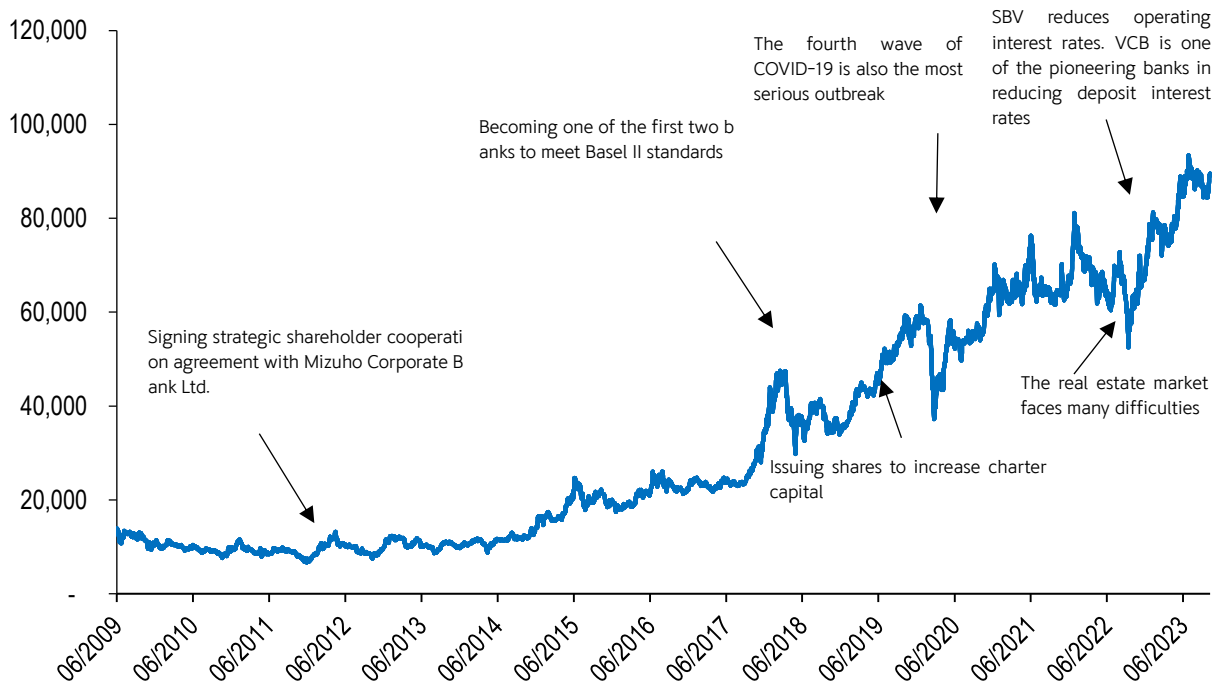
Source: SBV, Company Data, Shinhan Securities Vietnam

Average deposit interest rate in Vietnam



Source: SBV, Company Data, Shinhan Securities Vietnam

VCB important events



Source: Bloomberg, Company Data, Shinhan Securities Vietnam

Appendix: Financial statements

Balance sheet

Year (bn VND)	2020	2021	2022	2023F	2024F
Total assets	**1,326,230**	**1,414,986**	**1,814,188**	**1,834,90**	**2,047,106**
Cash and precious metals	15,095	18,012	18,349	16,727	18,892
Balances with the SBV	33,139	22,507	92,558	35,682	39,169
Placements with and loans to other credit institutions	267,970	225,765	313,592	334,256	364,327
Trading securities	1,954	2,766	1,500	1,963	2,565
Derivatives and other financial assets	-	303	157	157	157
Loans and advances to customers	820,545	934,774	1,120,287	1,201,37	1,357,554
Debts purchase	-	-	-	-	-
Investment securities	156,931	170,605	196,171	199,563	216,921
Long-term investments	2,239	2,346	2,194	3,130	3,292
Fixed assets	8,539	8,626	7,985	8,742	9,562
Investment properties	-	-	-	-	-
Other assets	19,817	28,969	61,397	33,312	34,668
Total liabilities	**1,232,135**	**1,305,555**	**1,676,200**	**1,669,79**	**1,850,398**
Due to Gov and Loans from SBV	41,177	9,468	67,315	13,463	16,156
Deposits and Loans from other credit institutions	103,584	109,758	232,511	221,409	255,144
Deposits from customers	1,032,114	1,135,324	1,243,468	1,367,81	1,504,597
Derivatives and other financial liabilities	52	-	-	-	-
Funds received from Gov, international and other institutions	15	8	3	3	3
Convertible bonds/CDs and other	21,240	17,388	25,338	26,098	30,013
Other liabilities	33,954	33,854	107,564	41,009	44,486
Shareholder's equity	**94,095**	**109,186**	**137,988**	**165,109**	**196,708**
Capital	42,429	42,429	53,130	53,595	54,060
Reserves	14,926	18,173	18,133	19,567	21,917
Retained earnings	36,650	48,503	67,500	91,836	120,594
Minority interest	85	87	88	111	138
Total liabilities and equity	**1,326,230**	**1,414,986**	**1,814,188**	**1,834,90**	**2,047,106**

Income statement

Year (bn)	2020	2021	2022	2023F	2024F
Interest and Similar Income	69,205	70,622	88,113	109,126	118,705
Interest and Similar Expenses	(32,920)	(28,349)	(34,866)	(52,946)	(56,332)
Net Interest Income	**36,285**	**42,273**	**53,246**	**56,181**	**62,374**
Net Fee and Commission Income	6,607	7,407	6,839	7,146	8,282
From foreign currency and gold	3,906	4,375	5,768	5,768	6,922
From trading of trading securities	2	138	(115)	2	3
From disposal of investment securities	-	(85)	82	82	82
Net Fee and Commission Income	1,800	2,393	2,054	1,536	2,792
Dividends income	461	130	208	208	208
Total non-interest income	**12,776**	**14,358**	**14,836**	**14,743**	**18,289**
Total operating income	**49,063**	**56,630**	**68,083**	**70,924**	**80,663**
General and Admin expenses	(16,038)	(17,666)	(21,260)	(20,849)	(23,192)
Operating Profit Before Provision (PPOP)	33,024	38,964	46,823	50,075	57,471
Provision for credit losses	(9,975)	(11,478)	(9,464)	(7,945)	(7,711)
Profit before tax	**23,050**	**27,486**	**37,359**	**42,130**	**49,759**
Corporate income tax	(4,577)	(5,469)	(7,446)	(8,426)	(9,952)
Net profit after tax	**18,473**	**22,017**	**29,912**	**33,704**	**39,807**
Attributable to parent company	18,451	21,997	29,892	33,682	39,781

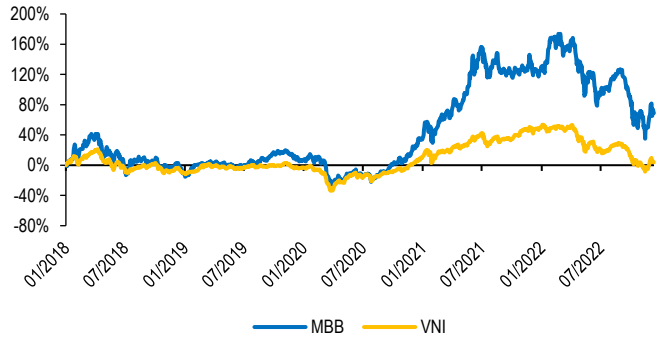
Financial indicators

Year	2020	2021	2022	2023F	2024F
Growth (% YoY)					
Loans to customers	13.99	15.09	18.86	8.00	13.00
Deposits from customers	11.17	10.00	9.53	10.00	10.00
Shareholders' equity	16.23	16.04	26.38	19.65	19.14
Total assets	8.46	6.69	28.21	1.14	11.56
Net interest income	5.06	16.50	25.96	5.51	11.02
Net non-interest income	14.53	12.38	3.33	-0.63	24.05
PPOP	10.75	17.99	20.17	6.95	14.77
Net profit before tax	-0.70	19.25	35.92	12.77	18.11
Net profit after tax	-0.67	19.18	35.86	12.68	18.11
Profitability (%)					
NIM	2.92	3.15	3.40	3.16	3.26
ROA	1.45	1.60	1.85	1.85	2.05
ROE	21.08	21.64	24.19	22.22	21.99
Liquidity (%)					
Pure LDR	81.4	84.6	92.1	90.4	92.9
Asset quality					
Leverage (x)	14.09	12.96	13.15	11.11	10.41
NPL ratio (%)	0.62	0.64	0.68	1.20	1.20
LLR ratio (%)	367.9	424.4	317.4	237.8	237.8
Reverse/total credit (%)	2.29	2.70	2.16	2.85	2.85
Credit costs/total loans (%)	1.19	1.19	0.83	0.64	0.55
Credit costs/total credit (%)	1.18	1.18	0.82	0.64	0.55
Per share items (VND)					
EPS	4,981	5,936	6,321	7,122	8,411
BPS	25,347	29,415	29,139	34,865	41,536
PPOP/Share	8,904	10,506	9,894	10,581	12,144

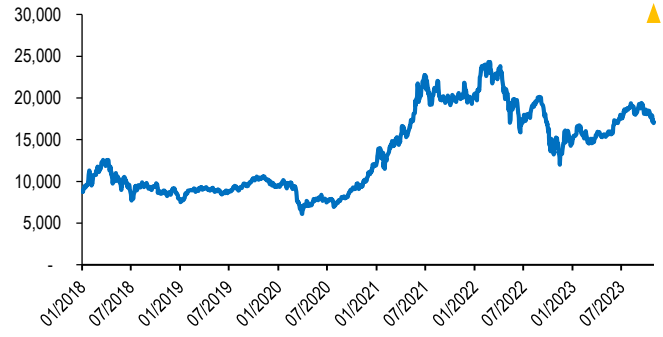
Source: Company data, Shinhan Securities Vietnam

Vietnam Technological and Commercial Joint Stock Bank (VCB VN)

Price performance



Target price (VND)



Date	Recommendation	Target price (VND)	Range of price (%)	
			Average	Max/Min
03/11/2022 (Initial report)	MUA	73,844	9.7	-9.9/28.8
07/03/2023 (Update)	GIU	80,111	25.02	3.0/58.9
07/11/2023 (Update)	MUA	107,530	40.02	15/80.6

Note: Calculation of target price gap based on the past 12 months

Shinhan Securities Vietnam

Stock	Industry
◆ **BUY:** Upside potential in 12 months more than 15% ◆ **HOLD:** Upside potential in 12 months from -15% to 15% ◆ **SELL:** Upside potential in 12 months more than -15%	◆ **POSITIVE:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **NEGATIVE:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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