May 9th, 2024

Shinhan Securities



Bank for Foreign Trade of Vietnam

[Vietnam / Banking]

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

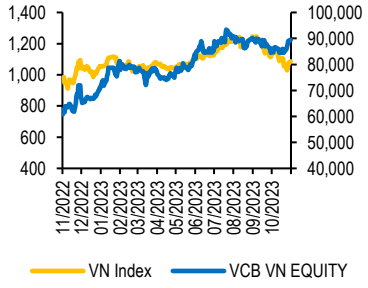
HOLD

Update report

Target price (2024)	**VND 101,600**
Current price (05/09/24)	VND 92,500
Upside/downside	9.85%

VNINDEX	1,249
P/E thị trường (24F, x)	11.4
Market Cap (bn VND)	519,227
Outstanding shares (mn)	5,589
Free-Floating (mn)	1,408
Free floating (%)	25.2
52-Wk High/Low (VND)	100.50/76,07
90-day avg. trading volume (mn)	1.41
90-day avg. turnover (bn VND)	135
Foreign ownership (%)	23.5
Major shareholders (%)	SBV 74.80
	Mizuho 15.0

Performance	3T	6T	12T
Absolute (%)	3.2	5.2	22.2
Relative to VN-Index (%)	-1.0	-10.4	2.2



Source: Bloomberg

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Difficulty at the beginning of the year

Updated with HOLD recommendation, target price 101,600 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 101,600 VND, with potential upside at 9.85%.

Update on AGM 2024 and business result in Q1/2024

- At the 2024 Annual General Meeting of Shareholders, VCB's management announced the bank's strategic plan for the 2025-2030 period will focus on four pillars: retail, services, corporate banking, and investment banking. In 2024, VCB temporarily focuses to grow credit on the corporate customer segment due to still relatively low demand from individual customers, especially for home loan products. VCB expects to disburse a credit package to finance Long Thanh airport (about USD 1 billion), in addition to other major projects such as oil and gas, exploitation, transmission, and electricity in 2024. In the long term, VCB will also increase the proportion of medium- and long-term loan to improve its profitability, the retail segment playing an important role in this strategy.
- VCB 2024 business goals: asset growth reaches 8% YoY, mobilization growth 8% YoY, Non-performing loan ratio (NPL) controlled below 1.5%. Regarding pre-tax profit in 2024, the management shared that SBV approved VCB PBT at VND 42,000 billion (+4.8% YoY). VCB said it is working on 6.5% private placement deal, expects to completed in 2024. VCB maintains the policy of share dividend in 2024 at a rate of 38.79%.
- Business results for Q1/2024: total credit shrank at the rate of -0.3% Ytd, NIM remains stable at 3.04%. Non-interest income decreased by 25.8% YoY, largely due to a decline in foreign exchange trading segment and other income segment. Total operating income in Q1/2024 reached VND 17,280 billion (-6.7% YoY). Despite good effort to control operating costs, VCB's credit risk provisioning expenses in Q1/2024, on the other hand, increased by more than +55.2% YoY. VCB's Q1/2024 pre-tax profit reached VND 10,718 billion (-4.5% YoY), achieving 25.5% of the 2024 plan (the goal approved by the SBV)

Outlook for the rest of 2024

Key assumptions for VCB's 2024 business results: Credit growth reaches 11.9% YoY, NIM around 3.1%, non-interest income increases 13.7% YoY, NPL ratio at 1.2%, CIR at 32%, Credit risk cost/total credit is at 0.5%, EBT is 45,451 billion VND (+10.2% 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	2023	2024F
Interest income (VNDbn)	36,285	42,273	53,246	53,621	60,606
Non-interest income (VNDbn)	12,778	14,357	14,836	14,103	16,034
Total operating income (VNDbn)	**49,063**	**56,630**	**68,083**	**67,723**	**76,640**
Provision and other expenses (VNDbn)	(26,013)	(29,144)	(30,724)	(26,480)	(31,189)
Profit before tax (VNDbn)	**23,050**	**27,486**	**37,359**	**41,244**	**45,451**
Credit growth (%)	13.99%	15.09%	18.86%	10.76%	11.90%
NIM (%)	2.92%	3.15%	3.40%	3.05%	3.10%
ROE (%)	**21.08%**	**21.64%**	**24.19%**	**21.57%**	**19.42%**

Source: Fiinpro, Company data, Shinhan Securities Vietnam

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Outlook for 2024

Year	Q1/2023	Q1/2024	% yoy	2024F	%yoy	Note
Net Interest Income (VNDbn)	14,203	14,078	-0.9%	60,013	13.0%	Management said that the economy's credit demand in Q1 2024 was still relatively weak, especially the retail loan book. However, VCB believes that Q2/2024 credit will improve thanks to disbursement for key national investment projects such as Long Thanh airport or Lot B project. We expect VCB's credit in 2024 achieving a growth rate of about 12%. The corporate customer segment continues to be the growth driver this year. NIM in 2024 improves slightly to 3.1%. VCB's fee income in the first months of the year has not improved, while foreign exchange trading and other income decreased, reducing VCB's non-interest income in Q1/2024. VCB's non-interest income in 2024 is adjusted to VND 16,034 billion (+13.7% YoY)
Non-interest Income (VNDbn)	4,314	3,202	-25.8%	16,034	13.7%	
Total Operating Income (VNDbn)	18,517	17,280	-6.7%	76,047	13.2%	
Operating expenses (VNDbn)	5,274	5,054	-4.2%	24,106	10.0%	We conservatively assume that operating expenses will increase in line with the increase in total income. We assume CIR ratio in 2024 to remain at 32%. With VCB's outstanding debt group 5 at the end of Q1/2024 around VND 9,400 billion, we forecast that VCB's 2024 credit risk provision expense will increase sharply due to the need to write-off bad debt from the balance sheet and maintain the LLR ratio at an appropriate level.
Provision expenses (VNDbn)	2,022	1,508	-25.4%	7,082	55.2%	
Profit Before Tax (VNDbn)	11,221	10,718	-4.5%	44,451	10.2%	
Non-performing ratio- NPL (%)	0.85%	1.22%		1.2%		The target NPL ratio was approved by the 2024 AGM to be controlled below 1.5%. We forecast that NPL ratio by the end of 2024 could be around 1.2%. In the context that total operating income before provisions has not improved as expected, we believe that VCB's LLR in 2024 may continue its downward trend.
Loan Loss Coverage Ratio – LLR (%)	320.8%	199.8%		187.7%		

Total Credit Growth – Ytd (%)	*2.5%*	*-0.3%*	*11.9%*	With interbank interest rates returning to 4-5% (from 0-1% in 2023) and a pick up in deposit interest rates. We conservatively forecast that VCB's NIM could only increase slightly in 2024.
Customer Deposit Growth – Ytd (%)	*3.5%*	*-3.5%*	*9.0%*	
Net Interest Margin – NIM (TTM %)	*3.38%*	*3.04%*	*3.10%*	

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 VND101,607.

1) In the short term, we use a target P/B of 3.0x (lower than VCB's 5-year average P/B). With BVPS forecast in 2024 at 36,837 VND, VCB's target price in 2024 is expected to be about 110,512 VND.

2) For the residual income method, the stock price in 2024 is estimated to be 95,670 VND.

Cost of Equity (%)	
Cost of Equity (%)	**9.2**
Risk-free rate (%)	2.9
Equity risk premium (%)	9.00
Beta	0.70

RI Method

(Unit: VNDbn)	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Cost of equity	**9.2**	**9.2**	**9.2**	**9.2**	**9.2**
Cost of equity after 2028					**9.2**
Net income	36,361	44,457	46,568	54,973	62,319
Residual income (RI)	19,137	23,471	21,394	25,128	27,079
PV of RI	**17,915**	**20,120**	**16,795**	**18,065**	**17,827**

Terminal value of RI (VNDbn)	**410,694**
Terminal growth (%)	2.00%
PV of terminal value (VNDbn)	270,371
PV of RI (VNDbn)	90,721
Beginning equity (bn VND)	173,614
Total value (bn VND)	**534,707**
Total outstanding shares (bn)	5.6
Target price (VND)	**95,670**

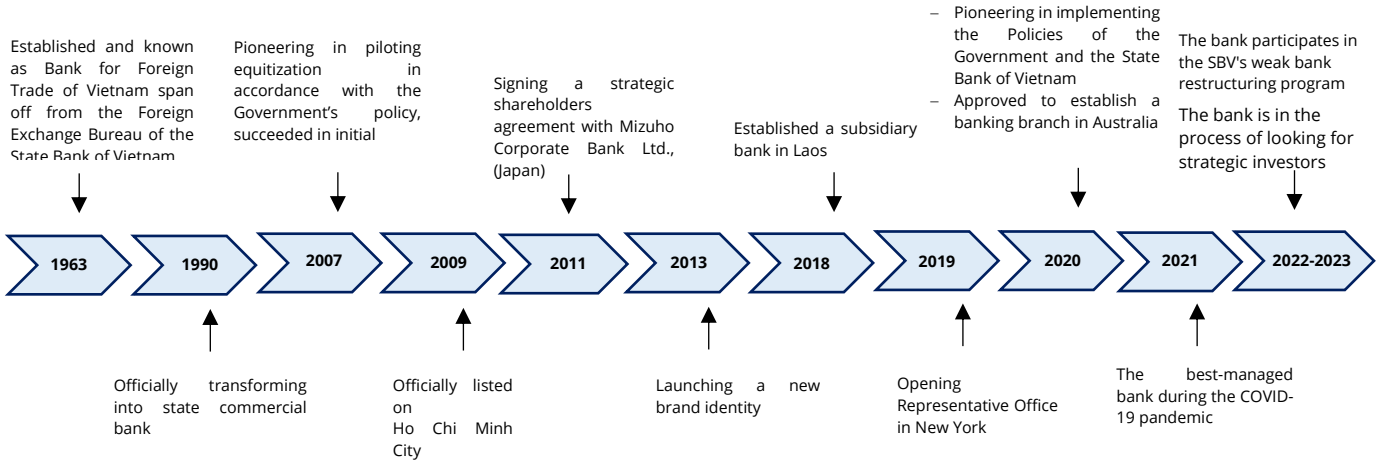
Valuation Summary

Method	Weight	Target price (VND)
Residual income	60%	**95,670**
P/B target (3.0x)	40%	**110,512**
Target price (VND)	**101,607**	

Source: Shinhan Securities Vietnam

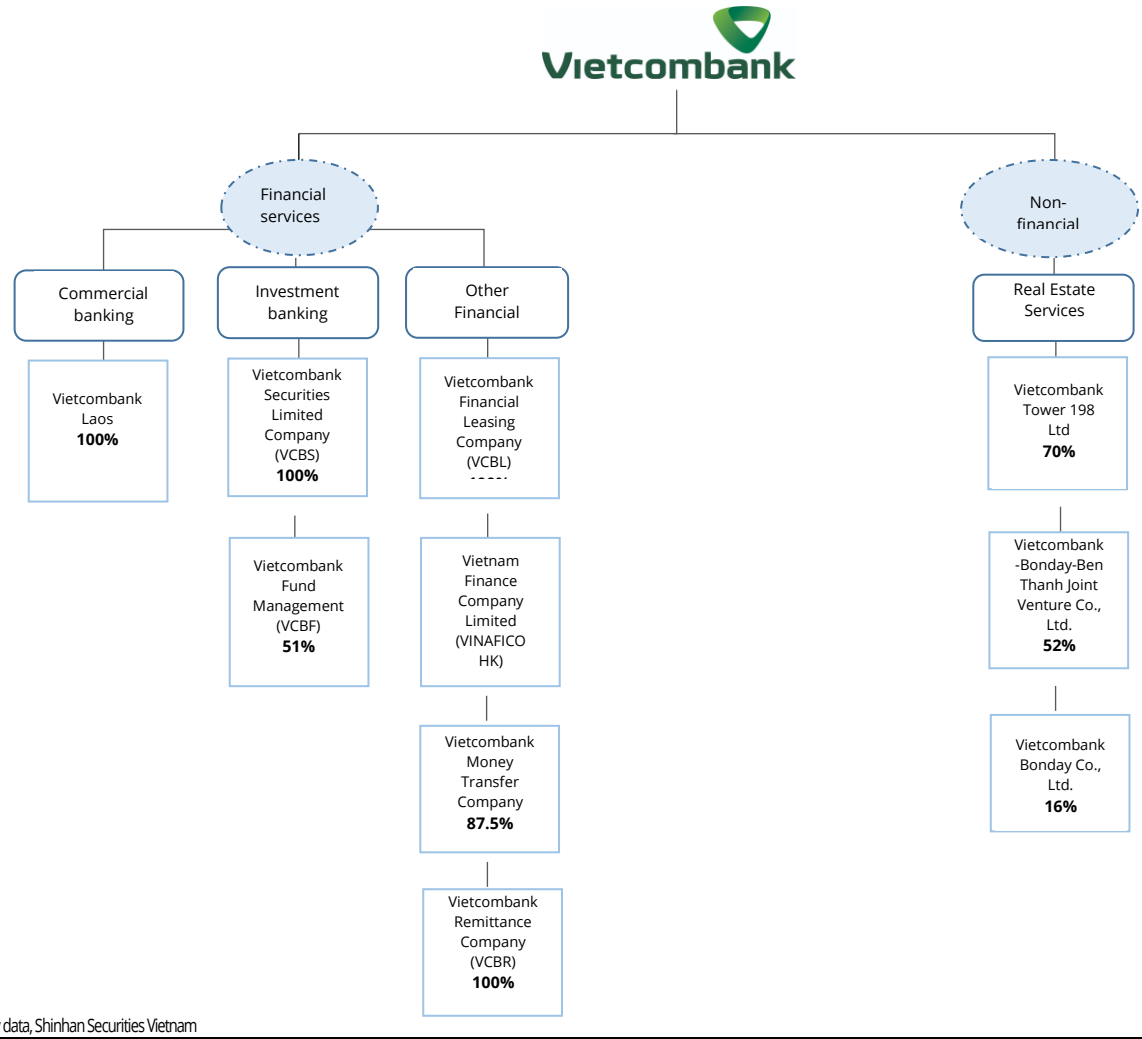
Business overview

History



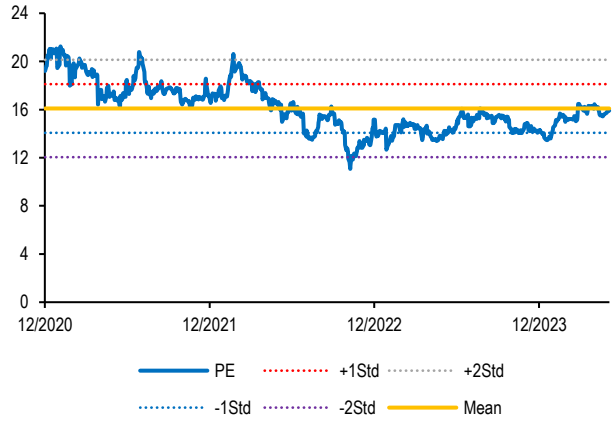
Subsidiaries

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



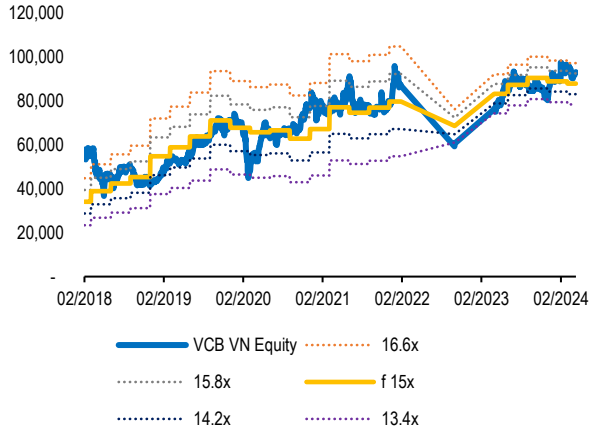
Source: Company data, Shinhan Securities Vietnam

PER of VCB



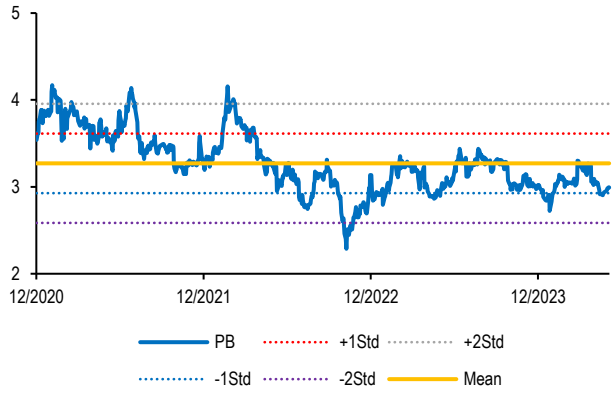
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band of VCB



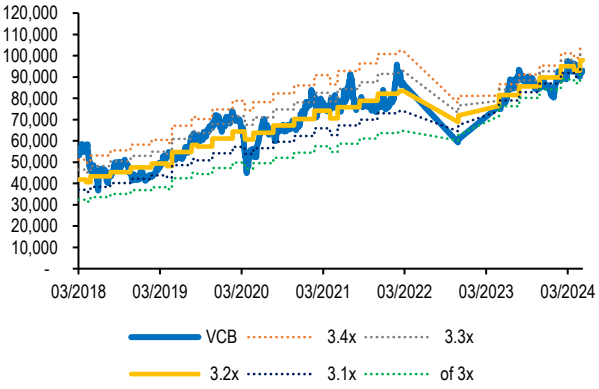
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PBR of VCB



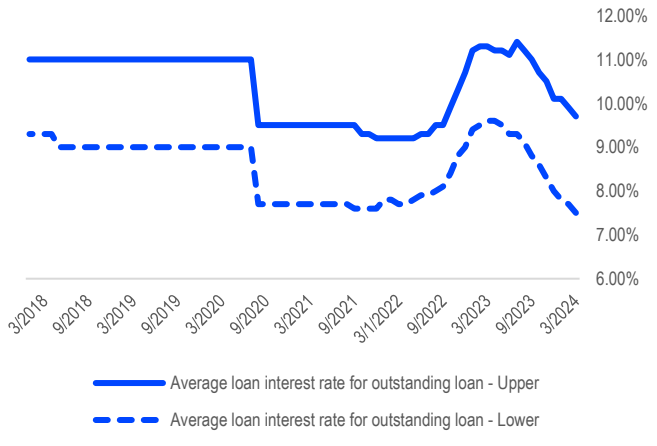
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PBR band of VCB



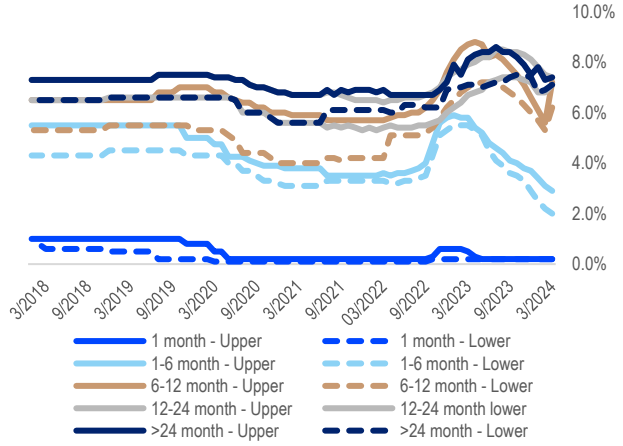
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Average loan interest rate in Vietnam



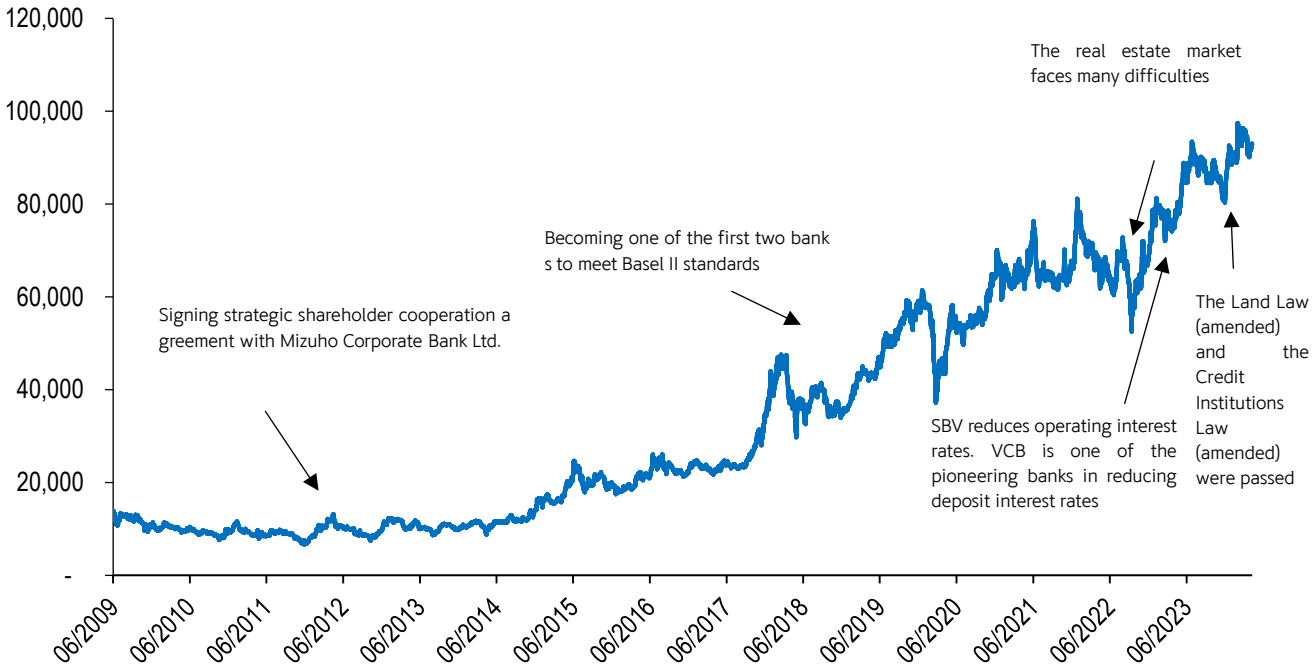
Source: SBV, Company Data, Shinhan Securities Vietnam

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	2023	2024F
Total assets	**1,326,230**	**1,414,986**	**1,814,188**	**1,839,22**	**2,070,636**
Cash and precious metals	15,095	18,012	18,349	14,505	15,213
Balances with the SBV	33,139	22,507	92,558	58,105	60,852
Placements with and loans to other credit institutions	267,970	225,765	313,592	335,616	401,723
Trading securities	1,954	2,766	1,500	2,495	2,495
Derivatives and other financial assets	-	303	157	-	-
Loans and advances to customers	820,545	934,774	1,120,287		1,390,756
Debts purchase	-	-	-	-	-
Investment securities	156,931	170,605	196,171	145,780	154,605
Long-term investments	2,239	2,346	2,194	2,225	2,165
Fixed assets	8,539	8,626	7,985	7,708	7,980
Investment properties	-	-	-	-	-
Other assets	19,817	28,969	61,397	31,114	34,847
Total liabilities	**1,232,135**	**1,305,555**	**1,676,200**		**1,864,749**
Due to Gov and Loans from SBV	41,177	9,468	67,315	1,671	1,838
Deposits and Loans from other credit institutions	103,584	109,758	232,511	213,842	271,218
Deposits from customers	1,032,114	1,135,324	1,243,468	1,395,69	1,521,307
Derivatives, Funds received from Gov, international and other institutions	15	8	3	118	118
Convertible bonds/CDs and other	21,240	17,388	25,338	19,913	26,882
Other liabilities	33,954	33,854	107,564	39,442	43,386
Shareholder's equity	**94,095**	**109,186**	**137,988**	**168,543**	**205,888**
Capital	42,429	42,429	53,130	61,696	83,376
Reserves	14,926	18,173	18,133	22,562	28,012
Retained earnings	36,650	48,503	67,500	85,174	94,373
Minority interest	85	87	88	94	126
Total liabilities and equity	**1,326,230**	**1,414,986**	**1,814,188**	**1,839,22**	**2,070,636**

Income statement

Year (bn)	2020	2021	2022	2023	2024F
Interest and Similar Income	69,205	70,622	88,113	108,122	105,042
Interest and Similar Expenses	(32,920)	(28,349)	(34,866)	(54,501)	(44,435)
Net Interest Income	**36,285**	**42,273**	**53,246**	**53,621**	**60,606**
Net Fee and Commission Income	6,607	7,407	6,839	5,780	6,733
From foreign currency and gold	3,906	4,375	5,768	5,660	6,733
From trading of trading securities	2	138	(115)	124	-
From disposal of investment securities	-	(85)	82	-	-
Net Fee and Commission Income	1,800	2,393	2,054	2,272	2,349
Dividends income	461	130	208	266	220
Total non-interest income	**12,776**	**14,358**	**14,836**	**14,103**	**16,034**
Total operating income	**49,063**	**56,630**	**68,083**	**67,723**	**76,640**
General and Admin expenses	(16,038)	(17,666)	(21,260)	(21,915)	(24,106)
Operating Profit Before Provision (PPOP)	33,024	38,964	46,823	45,809	52,534
Provision for credit losses	(9,975)	(11,478)	(9,464)	(4,565)	(7,082)
Profit before tax	**23,050**	**27,486**	**37,359**	**41,244**	**45,451**
Corporate income tax	(4,577)	(5,469)	(7,446)	(8,169)	(9,090)
Net profit after tax	**18,473**	**22,017**	**29,912**	**33,054**	**36,361**
Attributable to parent company	18,451	21,997	29,892	33,033	36,329

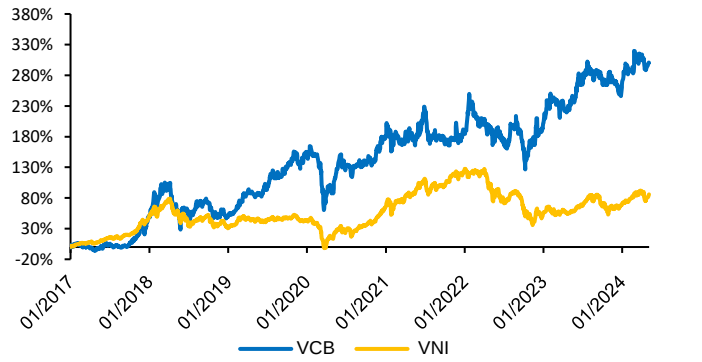
Financial indicators

Year	2020	2021	2022	2023	2024F
Growth (% YoY)					
Loans to customers	14.30	14.40	19.18	10.94	12.00
Deposits from customers	11.17	10.00	9.53	12.24	9.00
Shareholders' equity	16.33	15.97	26.46	22.14	22.16
Total assets	8.47	6.67	28.24	1.38	12.58
Net interest income	4.94	16.85	25.58	0.70	13.03
Net non-interest income	14.56	12.11	3.58	(4.95)	13.69
PPOP	10.40	18.55	19.62	(2.19)	14.68
Net profit before tax	(0.31)	18.82	36.44	10.37	10.20
Net profit after tax	(0.29)	18.77	36.37	10.48	10.00
Profitability (%)					
NIM	2.92	3.16	3.40	3.01	3.1
ROA	0.0	0.0	0.0	0.0	0.0
ROE	0.2	0.2	0.2	0.2	0.2
Liquidity (%)					
Pure LDR	81.37	84.62	92.09	91.02	93.52
Asset quality					
Leverage (x)	14.09	12.96	13.15	10.91	10.06
NPL ratio (%)	0.62	0.64	0.68	0.98	1.20
LLR ratio (%)	367.96	424.36	316.86	230.30	187.69
Reverse/total credit (%)	2.28	2.67	2.14	2.24	2.24
Credit costs/total loans (%)	1.27	1.31	0.90	0.38	0.53
Credit costs/total credit (%)	1.26	1.29	0.89	0.37	0.49
Per share items (VND)					
EPS	4,981	5,915	6,322	5,914	6,506 *
BPS	25,370	29,421	29,158	30,156	36,837*
PPOP/Share	8,904	10,556	9,896	8,196	9,399*

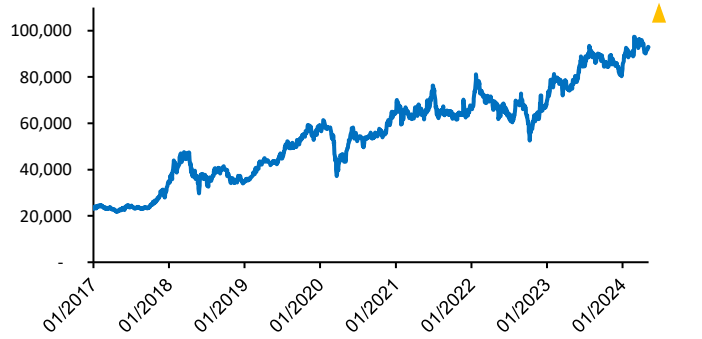
Source: Company data, Shinhan Securities Vietnam
* Calculated based on the number of outstanding shares at the time of the report

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)	BUY	73,844	9.7	-9.9/28.8
07/03/2023 (Update)	HOLD	80,111	25.02	3.0/58.9
07/11/2023 (Update)	BUY	107,530	40.02	15/80.6
05/08/2024 (Update)	HOLD	101,600	18.01	4.0/36.3

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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