Shinhan Securities



Bank for Foreign Trade of Vietnam

[Vietnam / Banking]

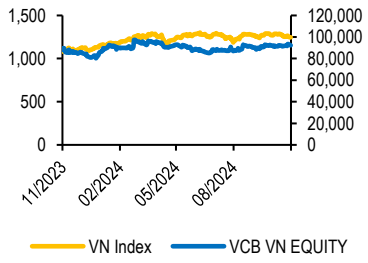
Bloomberg Code (VCB VN) | Reuters Code (VCB.HM)

BUY

Update report

Target price (2025)	**VND 109,400**
Current price (11/07/24)	VND 93,200
Upside/downside	17.4%

VNINDEX			1,259
P/E thị trường (24F, x)			11.7
Market Cap (bn VND)			515,873
Outstanding shares (mn)			5,589
Free-Floating (mn)			1,408
Free floating (%)			25.2
52-Wk High/Low (VND)			100.50/80.01
90-day avg. trading volume (mn)			1.46
90-day avg. turnover (bn VND)			125
Foreign ownership (%)			23.3
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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Brand of stability

Updated with BUY recommendation, target price 109,400 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 2025 at 109,400 VND.

Business results 9M/2024

- VCB's credit growth in 9M/2024 is more than 10% Ytd. However, VCB's NIM continues to face downward pressure and is currently at 2.99%. VCB's net interest income in 9M/2024 reached more than VND 41,563 billion (+1.8% YoY). Non-interest income in 9M/2024 decreased by 15% YoY due to the impact of the decrease in foreign exchange trading and the decrease in other income related to the handling of risk-treated assets. VCB's staff and operating costs are tightly controlled, helping the CIR ratio in 9M/2024 to remain around 31%.
- Regarding debt quality, VCB's bad debt ratio at the end of Q3/2024 did not fluctuate much compared to Q2/2024 and stayed at 1.2% (in line with our forecast). Loan loss coverage ratio (LLR) maintained at above 200%. In contrast to the increasing trend of credit costs, VCB's credit risk provisioning costs decreased by 44% YoY.
- VCB's 9M/2024 profit before tax reached a cumulative VND31,533 billion (+6.7% YoY), completing 75% of the 2024 profit plan approved by the General Meeting of Shareholders. VCB's plan to issue 6.5% of private placement to improve CAR was pushed to 2025. VCB expects the CAR ratio in 2025-2026 to reach 13-13.5%.

Outlook for the rest of 2024-2025

Key assumptions for VCB's 2024-2025 business results: Credit growth reaches 14% for both 2024 and 2025; NIM slightly decreases to 2.94% and increases again to 3.25% in 2025; non-interest income growth in 2024 and 2025 reaches -9% and 43% respectively, NPL ratio in 2024 and 2025 is around 1.1-1.2%; credit risk cost/total credit in 2024 is at 0.4% and 0.8% in 2025, PBT in 2024 and 2025 reaches growth rates of 3.42% YoY and 25.32% YoY respectively.

Risk: (1) Lending interest rates continue to fall and credit growth slows, causing NIM to continue to narrow. (2) Rapidly increasing bad debt puts pressure on risk provisioning costs.

Year	**2021**	**2022**	**2023**	**2024F**	**2025F**
Interest income (VNDbn)	42,273	53,246	53,621	57,079	72,208
Non-interest income (VNDbn)	14,357	14,836	14,103	12,829	18,403
Total operating income (VNDbn)	**56,630**	**68,083**	**67,723**	**69,908**	**90,611**
Provision and other expenses (VNDbn)	(29,144)	(30,724)	(26,480)	(27,255)	(37,156)
Profit before tax (VNDbn)	**27,486**	**37,359**	**41,244**	**42,653**	**53,455**
Credit growth	15.09%	18.86%	10.76%	14.0%	14.0%
NIM	3.15%	3.40%	3.05%	2.94%	3.25%
ROE	**21.64%**	**24.19%**	**21.57%**	**18.34%**	**19.00%**

Source: Fiinpro, Company data, Shinhan Securities Vietnam

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Outlook for 2024-2025

Year	9T/2024	% yoy	2024F (Old)	2024F (New)	% yoy	2025F	% yoy	Note
Net Interest Income (VNDbn)	41,563	*1.8%*	60,013	57,079	6.5%	72,208	26.5%	In contrast to 2023, when calculating by Q3/2024, VCB's credit has increased more steadily and reached more than 10% Ytd (compared to only nearly 4% Ytd at the end of Q3/2023). Steady credit growth throughout the year is a relatively positive signal reflecting more real market demand. However, NIM continued to shrink below 3%. We believe that Q4/2024 will not see any noticeable improvement in NIM, but growth in total credit. We expect that as credit demand continues to recover, banks may not have to further lower interest rates to stimulate demand. In addition, growth in the retail customer group (pushing medium and long-term lending - usually with higher NIMs) will be a factor helping NIM improve in 2025.
Non-interest Income (VNDbn)	9,305	*-15.0%*	16,034	12,829	-9.0%	18,403	43.4%	In 2024, net profit from service activities have a positive growth. But foreign exchange trading and other income does not grow as expected.
Total Operating Income (VNDbn)	50,868	*-1.7%*	76,047	69,908	3.2%	90,611	29.6%	
Operating expenses (VNDbn)	15,987	*-1.1%*	24,106	22,134	1.0%	24,347	10%	Contrary to our forecast, VCB recorded lower operating expenses in 2024, amid flat earnings. In 2025, we assume VCB will record operating expense growth equal to the 5-year average.
Provision expenses (VNDbn)	3,347	-44.7%	7,082	5,120	12.7%	12,809	150%	With the advantage of a high loan loss coverage ratio (LLR), VCB continues to maintain its policy of limiting the recognition of credit risk provision expenses in 2024. With more than 0.76% of VCB's outstanding debt at the end of Q3/2024 coming from debt group 5 (average at 0.5%), we believe that VCB will write-off bad debt from the balance sheet and put pressure on credit risk provisioning costs for 2025.

Profit Before Tax (VNDbn)	31,533	*6.7%*	44,451	42,653	3.4%	53,455	25.3%	We believe that in the following years when income improves, VCB can record an increase in provisioning expenses to both clear bad debt on the balance sheet and improve LLR (as it did in the 2020-2022 period).
Non-performing ratio- NPL (%)	1.2%		1.2%	1.2%		1.1%		We maintain VCB's NPL ratio in 2024 at 1.2% as last reported. The NPL ratio will be maintained around this level in 2025..
Loan Loss Coverage Ratio – LLR (%)	205%		188%	187%		207%		We expect LLR to hover around 200% during 2024-2025.
Total Credit Growth – Ytd (%)	*10.2%*		*11.9%*	14%		14%		Credit growth forecast increased due to more positive signals from the market. VCB has not yet received approval from the State Bank of Vietnam for its private placement plan in 2024, and management expects the deal to be approved in 2025. VCB targets CAR at 13 and 13.5% for 2025 and 2026, respectively. Therefore, the policy of paying dividends in shares will continue to be maintained in the coming time.
Customer Deposit Growth – Ytd (%)	*2.5%*		*9.0%*	9.0%		10%		
Net Interest Margin – NIM (TTM %)	*2.99%*		*3.10%*	2.94%		3.25%		We lower our 2024 NIM forecast due to fierce lending rate competition in the market.

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 2025 is VND109,400.

1) In the short term, we use a target P/B of 2.8x (current trading P/B of VCB). With BVPS forecast in 2025 at 44,088 VND, VCB's target price in 2025 is expected to be about 123,477 VND.

2) For the residual income method, the stock price in 2025 is estimated to be around 100,090 VND.

Cost of Equity (%)	
Cost of Equity (%)	**10.3**
Risk-free rate (%)	2.9
Equity risk premium (%)	9.00
Beta	0.82

RI Method

(Unit: VNDbn)	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Cost of equity	**10.3**	**10.3**	**10.3**	**10.3**	**10.3**
Cost of equity after 2028					**10.3**
Net income	34,123	42,764	53,283	63,200	72,322
Residual income (RI)	14,992	19,631	25,213	29,143	31,298
PV of RI	**14,630**	**17,371**	**20,231**	**21,204**	**20,650**

Terminal value of RI (VNDbn)	**416,859**
Terminal growth (%)	2.00%
PV of terminal value (VNDbn)	275,028
PV of RI (VNDbn)	94,085
Beginning equity (bn VND)	190,297
Total value (bn VND)	**559,410**
Total outstanding shares (bn)	5.6
Target price (VND)	**100,090**

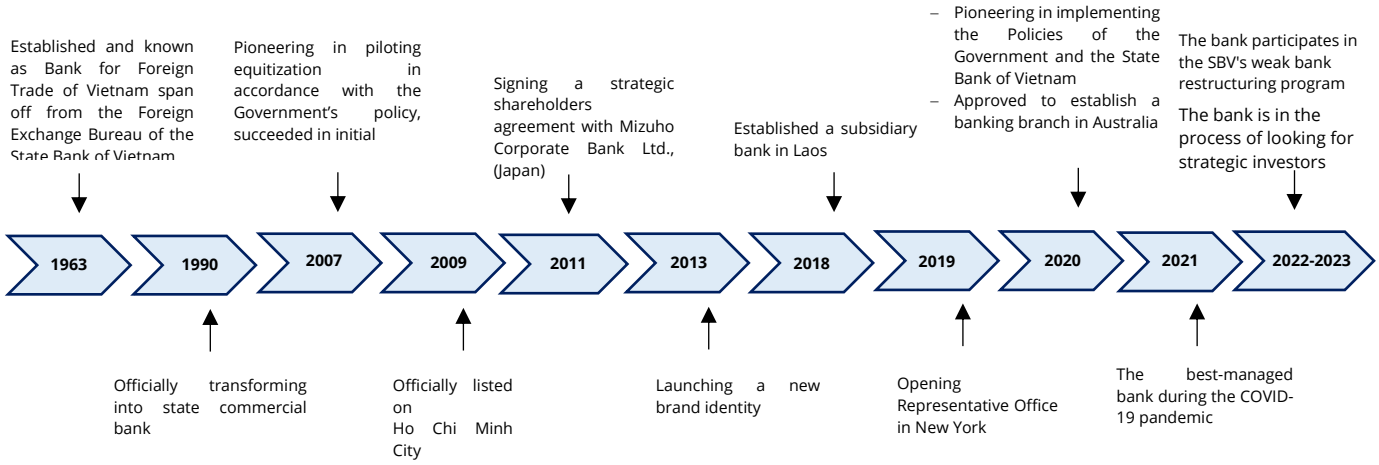
Valuation Summary

Method	Weight	Target price (VND)
Residual income	60%	**100,090**
P/B target (2.8x)	40%	**123,447**
Target price (VND)	**109,433**	

Source: Shinhan Securities Vietnam

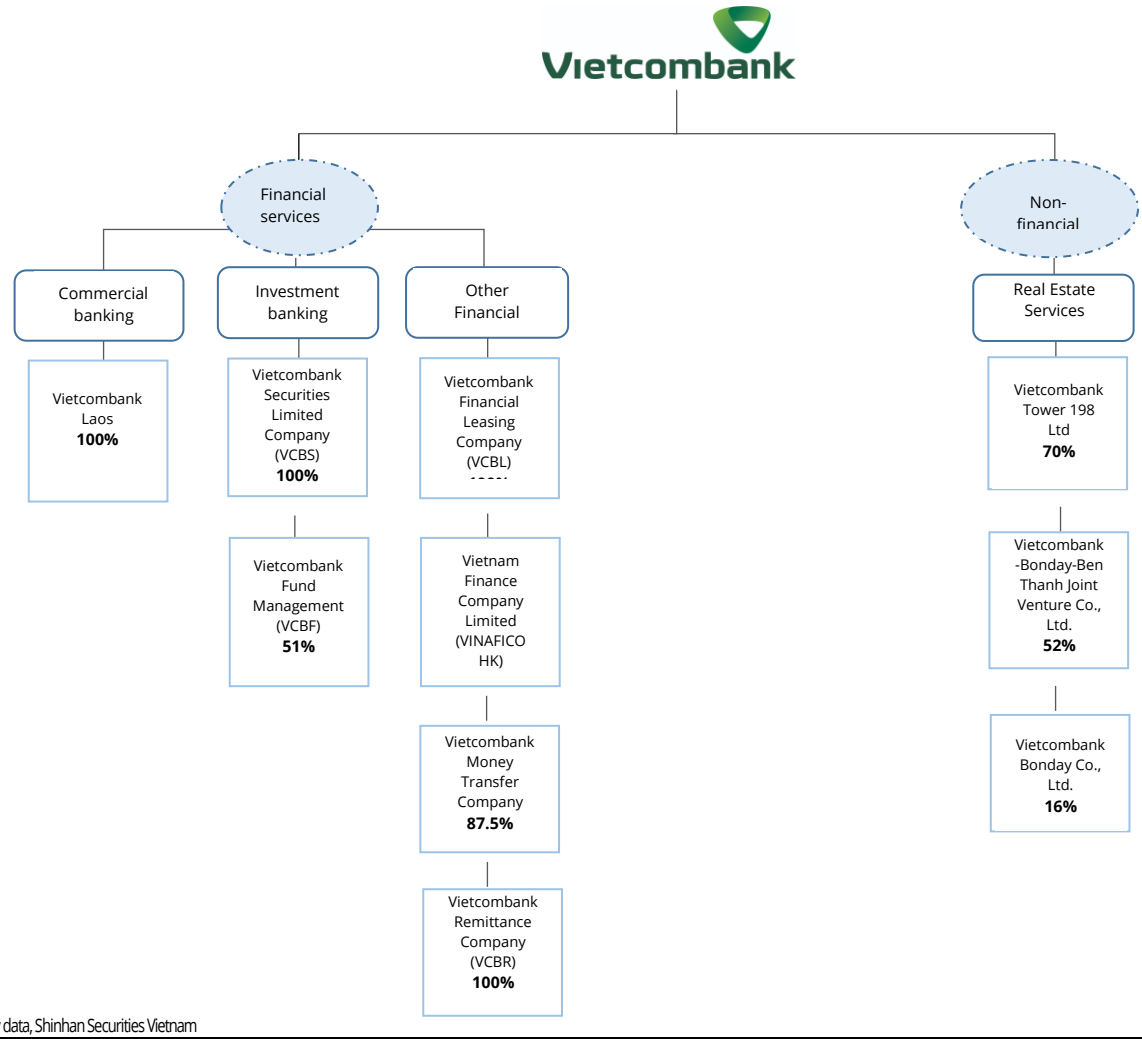
Business overview

History



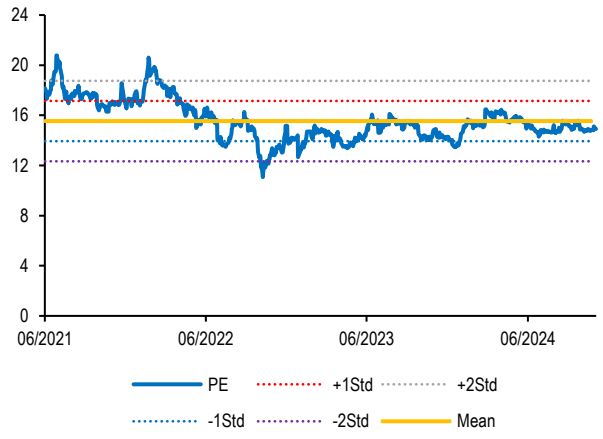
Subsidiaries

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



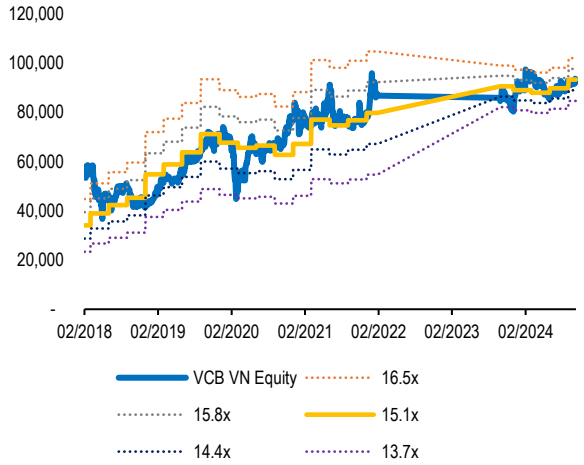
Source: Company data, Shinhan Securities Vietnam

PER of VCB



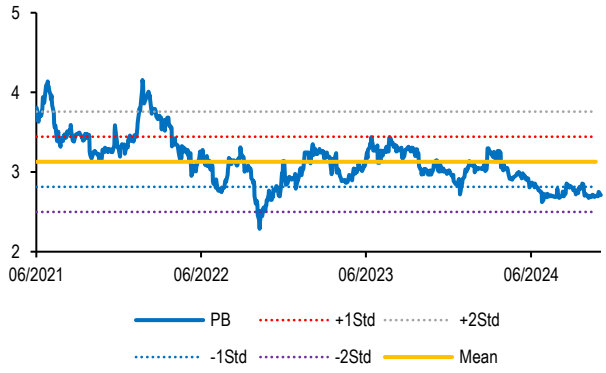
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band of VCB



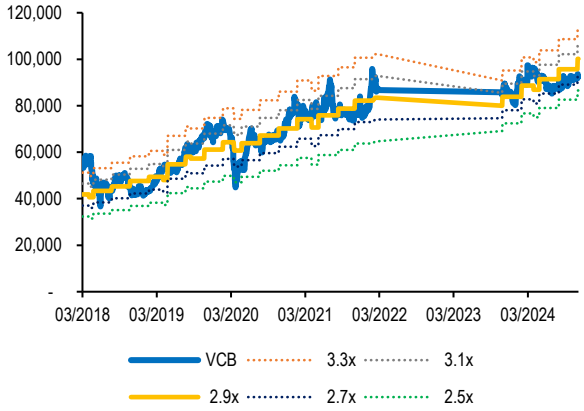
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PBR of VCB



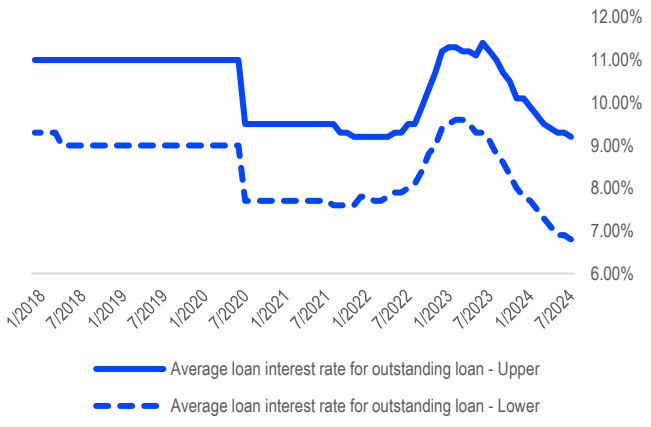
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band of VCB



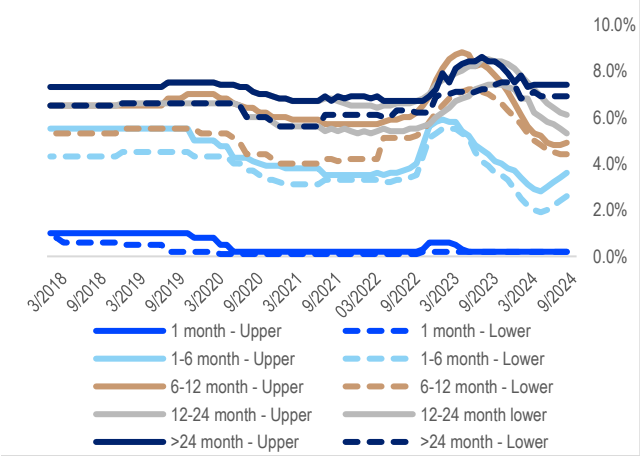
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Average loan interest rate in Vietnam



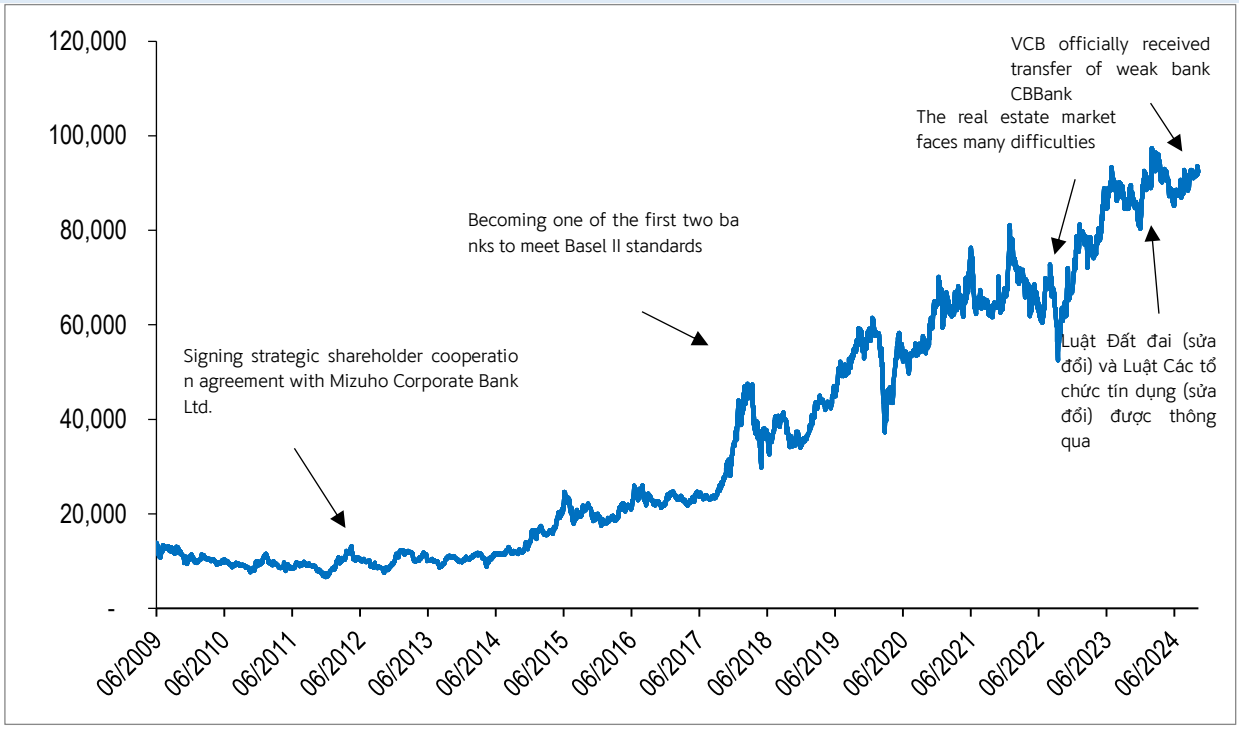
Source: SBV, Company Data, Shinhan Securities Vietnam

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)	2021	2022	2023	2024F	2025F
Total assets	**1,414,986**	**1,814,188**	**1,839,223**	**2,100,829**	**2,404,811**
Cash and precious metals	18,012	18,349	14,505	15,213	16,734
Balances with the SBV	22,507	92,558	58,105	60,852	66,938
Placements with and loans to other credit institutions	225,765	313,592	335,616	406,943	491,286
Trading securities	2,766	1,500	2,495	2,495	2,495
Derivatives and other financial assets	303	157	-	-	-
Loans and advances to customers	934,774	1,120,287	1,241,675	1,415,727	1,613,383
Debts purchase	-	-	-	-	-
Investment securities	170,605	196,171	145,780	154,605	164,577
Long-term investments	2,346	2,194	2,225	2,165	2,107
Fixed assets	8,626	7,985	7,708	7,980	8,261
Investment properties	-	-	-	-	-
Other assets	28,969	61,397	31,114	34,847	39,029
Total liabilities	**1,305,555**	**1,676,200**	**1,670,680**	**1,897,179**	**2,158,398**
Due to Gov and Loans from SBV	9,468	67,315	1,671	1,838	2,022
Deposits and Loans from other credit institutions	109,758	232,511	213,842	303,648	398,805
Deposits from customers	1,135,324	1,243,468	1,395,695	1,521,307	1,673,438
Derivatives, Funds received from Gov, international and other institutions	8	3	118	118	118
Convertible bonds/CDs and other	17,388	25,338	19,913	26,882	36,291
Other liabilities	33,854	107,564	39,442	43,386	47,725
Shareholder's equity	**109,186**	**137,988**	**168,543**	**203,649**	**246,413**
Capital	42,429	53,130	61,696	83,376	90,046
Reserves	18,173	18,133	22,562	27,676	34,085
Retained earnings	48,503	67,500	85,174	92,473	122,119
Minority interest	87	88	94	124	162
Total liabilities and equity	**1,414,986**	**1,814,188**	**1,839,223**	**2,100,829**	**2,404,811**

Income statement

Year (bn)	2021	2022	2023	2024F	2025F
Interest and Similar Income	70,622	88,113	108,122	99,103	122,236
Interest and Similar Expenses	(28,349)	(34,866)	(54,501)	(42,024)	(50,028)
Net Interest Income	**42,273**	**53,246**	**53,621**	**57,079**	**72,208**
Net Fee and Commission Income	7,407	6,839	5,780	6,796	8,523
From foreign currency and gold	4,375	5,768	5,660	4,078	6,973
From trading of trading securities	138	(115)	124	-	-
From disposal of investment securities	(85)	82	-	-	-
Net Fee and Commission Income	2,393	2,054	2,272	1,735	2,694
Dividends income	130	208	266	220	214
Total non-interest income	**14,358**	**14,836**	**14,103**	**12,829**	**18,403**
Total operating income	**56,630**	**68,083**	**67,723**	**69,908**	**90,611**
General and Admin expenses	(17,666)	(21,260)	(21,915)	(22,134)	(24,347)
Operating Profit Before Provision (PPOP)	38,964	46,823	45,809	47,774	66,264
Provision for credit losses	(11,478)	(9,464)	(4,565)	(5,120)	(12,809)
Profit before tax	**27,486**	**37,359**	**41,244**	**42,653**	**53,455**
Corporate income tax	(5,469)	(7,446)	(8,169)	(8,531)	(10,691)
Net profit after tax	**22,017**	**29,912**	**33,054**	**34,123**	**42,764**
Attributable to parent company	21,997	29,892	33,033	34,092	42,726

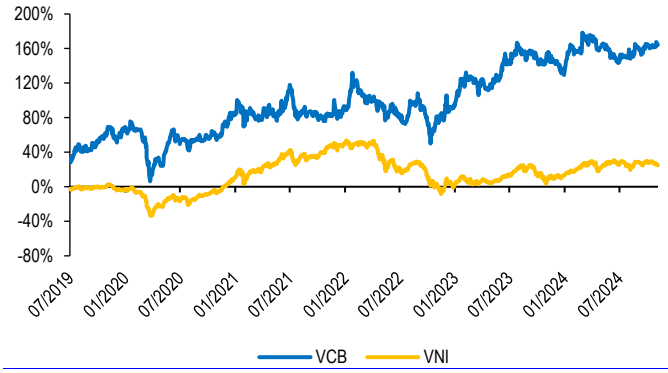
Financial indicators

Year	2021	2022	2023	2024F	2025F
Growth (% YoY)					
Loans to customers	14.40	19.18	10.94	14.00	14.00
Deposits from customers	10.00	9.53	12.24	9.00	10.00
Shareholders' equity	15.97	26.46	22.14	20.83	21.00
Total assets	6.67	28.24	1.38	14.22	14.47
Net interest income	16.85	25.58	0.70	6.45	26.51
Net non-interest income	12.11	3.58	(4.95)	(9.03)	43.45
PPOP	18.55	19.62	(2.19)	4.29	38.70
Net profit before tax	18.82	36.44	10.37	3.42	25.32
Net profit after tax	18.77	36.37	10.48	3.23	25.32
Profitability (%)					
NIM	3.16	3.40	3.01	2.94	3.25
ROA	1.6	1.9	1.8	1.7	1.9
ROE	21.6	24.2	21.6	18.3	19.0
Liquidity (%)					
Pure LDR	84.62	92.09	91.02	95.20	98.66
Asset quality					
Leverage (x)	12.96	13.15	10.91	10.32	9.76
NPL ratio (%)	0.64	0.68	0.98	1.20	1.10
LLR ratio (%)	424.36	316.86	230.30	186.91	206.91
Reverse/total credit (%)	267.05	214.33	224.00	222.72	226.20
Credit costs/total loans (%)	1.31	0.90	0.38	0.38	0.83
Credit costs/total credit (%)	1.29	0.89	0.37	0.37	0.77
Per share items (VND)					
EPS	5,915	6,322	5,914	6,105	7,651
BPS	29,421	29,158	30,156	36,437	44,088
PPOP/Share	10,556	9,896	8,196	8,548	11,856

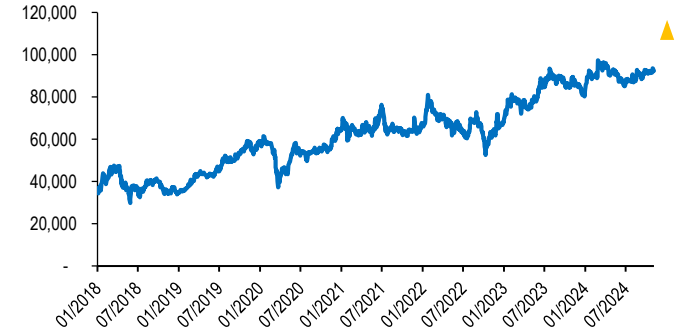
Source: Company data, Shinhan Securities Vietnam

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
11/03/2022 (Initial report)	BUY	73,844	9.7	-9.9/28.8
03/07/2023 (Update)	HOLD	80,111	25.02	3.0/58.9
11/07/2023 (Update)	BUY	107,530	40.02	15/80.6
05/08/2024 (Update)	HOLD	101,600	18.01	4.0/36.3
11/07/2024 (Update)	BUY	109,433	21.19	8.9/36.6

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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