March 7th, 2023

Shinhan Securities



Bank for Foreign Trade of Vietnam (HOSE: VCB)

[Vietnam / Bank]

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

Hold

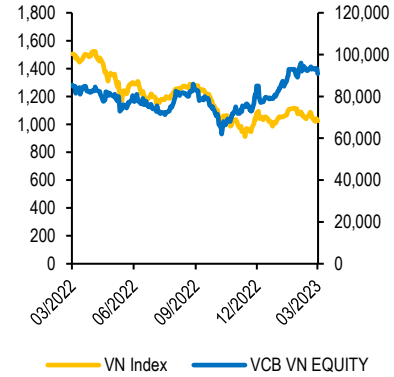
Update report

Target price (12 month)	**VND 94,600**
Current price (03/07/23)	VND 91,900
Upside/downside	2.96%

VNINDEX	1,058
HNXINDEX	9.8
Market Cap (bn VND)	434,918
Outstanding shares (mn)	4,733
Free-Floating (mn)	1,192
52-Wk High/Low (VND)	25.2
90-day avg. trading volume (mn)	62,600/96,300
90-day avg. turnover (bn VND)	1.28
Foreign ownership (%)	108
VNINDEX	4.24

Major shareholders (%)	State bank of Vietnam	74.80
	Mizuho Bank, Ltd.	15.02

Performance	3T	6T	12T
Absolute (%)	6.9	8.2	6.3
Relative to VN-Index (%)	12.1	28.2	38.2



Source: Bloomberg

Open account

[Chuyên viên]

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Maintain leading position

Update report with HOLD rating, target price of VND94,600

With residual income (RI) method and P/B comparison method, we update our target price for VCB in the next 12 months at VND94,600, upside potential at 2.96%. VCB maintains the advantage of being the most efficient bank in business, asset quality has improved over the years, and it is constantly making efforts in digital transformation. In 2023, VCB officially announce the take over deal of weak banks at the request from SBV. Meanwhile, additional share issuance to investors is likely to take place in early 2024. In the short term, VCB current price partly reflects the positive business results of 2022 and business plan in 2023. Therefore, we change from a Buy to Hold recommendation in this update report.

Business summary of 2022

VCB's 2022 credit balance increased by 19% YoY and reached VND 1.15 quadrillion. NIM stayed at 3.40%. In 2022, net interest income is recorded at VND 53,246 billion (+26% YoY). Total operating income (TOI) for the financial year reached VND68,083 billion (+20.2% YoY). ROA and ROE remained at high levels, at 1.85% and 24.19% respectively. VCB had good asset quality as total assets increased by 28.2% to VND 1,814.2 quadrillion at the end of 2022. NPL ratio reached 0.68%, among the lowest in the industry. Loan loss reserve ratio (LLR) is the industry's leading ratio, approximately at 317%. The corporate bond position contributes less than 1% of VCB's loan outstanding balance. The outstanding loans of real estate segment currently account for only about 20% of the total outstanding loans of the bank. The CIR ratio continues to remain at 31.2% in 2022. VCB leads the industry in terms of EBT, with EBT reaching VND 37,359 billion (+36% YoY) and completing 121% of the year plan.

Impact of new regulations

Decree 08/2023/ND-CP was officially issued on March 5th, 2023, creating favorable conditions for businesses to restructure its debts. This Decree is expected to have a positive impact on the corporate bond market in 2023.

Circular 26/2022/TT-NHNN allows 50% of deposits from the State Treasury to be used in the calculation of LDR, helping VCB to improve 140bps for 2023F.

Outlook for 2023

With the prospect of Vietnam's economic growth slowing down compared to 2022, we assume that VCB's loan balance will grow at 13%. NIM of VCB may decrease to 3.25% due to the lowering of interest rate policy to stimulate the market's borrowing demand. NPL ratio remained below 1% and LLR in 2023 reached over 300%. VCB's pre-tax profit for the whole year of 2023 is expected to grow at 16.24%, slower than the growth rate of 35.9% in 2022.

Risk: (1) Risks related to corporate bonds have worse performance than forecast; (2) Risk of continued increase in operating interest rates, putting pressure on the bank's NIM.

Year	2019	2020	2021	2022	2023F
Interest income (VNDbn)	34,538	36,285	42,273	53,246	59,074
Non-interest income (VNDbn)	11,155	12,778	14,357	14,837	18,066
Total operating income (VNDbn)	**45,693**	**49,063**	**56,630**	**68,083**	**77,140**
Provision and other expenses (VNDbn)	(22,481)	(26,013)	(29,144)	(30,724)	(33,714)
Profit before tax (VNDbn)	**23,212**	**23,050**	**27,486**	**37,359**	**43,426**
Credit growth (%)	15.90%	14.00%	15.10%	18.86%	13.00%
NIM (%)	3.10%	2.92%	3.15%	3.40%	3.25%
ROE (%)	25.96%	21.08%	21.64%	24.19%	23.28%

Source: Company data, Shinhan Securities Vietnam

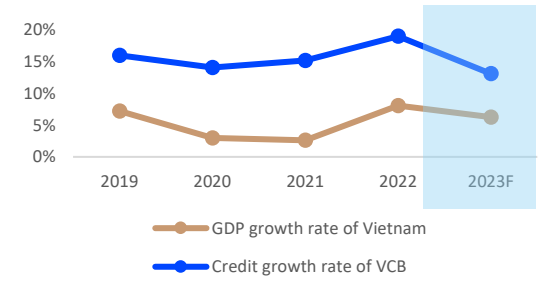
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Business forecast

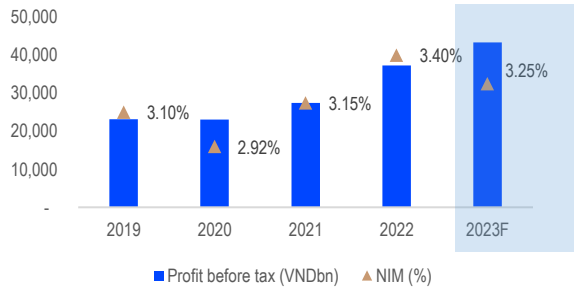
Outlook for 2023

We expect Vietnam's economy, although still facing many difficulties in the first half, will recover in the second half of 2023. Vietnam's GDP may grow at only 6% in 2023, accordingly, we expect VCB's credit growth to reach 13% this year. At the same time, with policies to decrease lending interest rates down at 0.5%/year being applied to support businesses, VCB's NIM is assumed to decrease by 150 bps compared to 2022, sitting at 3.25%.

Credit growth rate (%)



NIM of VCB (%)

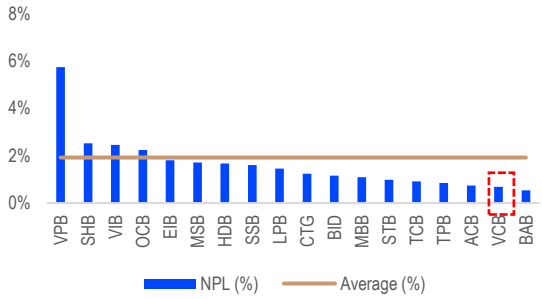


Source: Company data,, báo cáo IMF

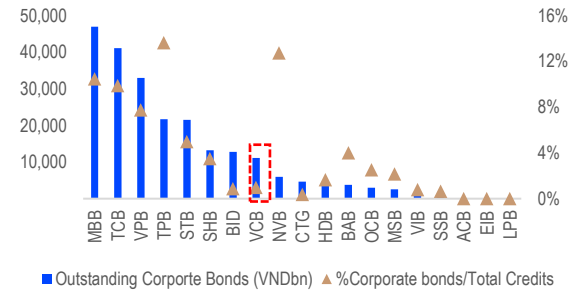
High asset quality and robust buffers

As of Q4/2022, corporate bond outstanding at VCB stood at VNDbn11,801, accounting for less than 1% of total outstanding loans. In 2023, we forecast that the NPL ratio of enterprises will increase to 0.73% and the NPL coverage ratio at 324%. With a diversified loan portfolio in many industries, we believe that VCB is one of the safest banks in the system.

NPL (%)

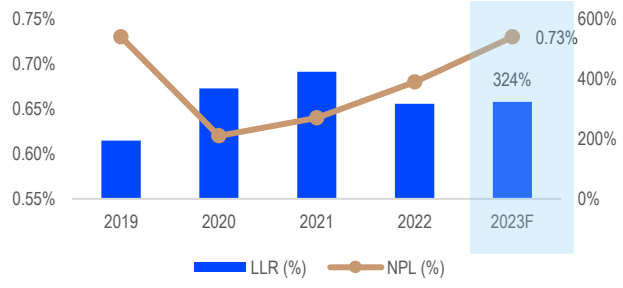


Corporate bond/Total outstanding loan(%)



Source: Fiinpro, Company data, Shinhan Securities

NPL and LLR Forecast of VCB (%)



Source: Fiinpro, Company data, Shinhan Securities

Impacts from new regulations

1) Decree 08/2023/ND-CP

The Government has officially issued Decree 08/2023/ND-CP dated March 5th, 2023, the main points in this Decree include: a) Allowing payment of bond principal and interest with other assets; b) It is allowed to extend the bond term up to no more than 2 years; c) Suspend the regulations on determining the status of professional investors as individuals and business ratings. These amendments could relieve pressure on the bond market in the short term and create favorable conditions for businesses to restructure their debts.

2) Circular 26/2022/TT-NHNN

Circular 26/2022/TT-NHNN with the change in the LDR calculation formula helps VCB improve this index. The main difference is that according to the total deposit calculation, banks only have to deduct 50% of the payment deposits of the State Treasury for 2023. This circular has a positive impact on 3 banks. State Trade includes Vietcombank, BIDV and Vietinbank. According to our estimation, VCB's LDR in 2023 will improve by more than 140bps from 79.8% to 78.4%, lower than the 85% requirement by SBV. This calculation can help VCB reduce the pressure to attract deposit from its customers in the short term and thus be able to lend more.

Valuation and Recommendation

1) Vietcombank is forced to takeover weak institution

Although the name of the weak bank has not been officially announced by the SBV, it is expected be announced within 2023. Provisions for other credit institutions increased sharply from VND 4,000 bn in Q3/2022 to VND 10,840 bn in Q4/2022. This deal can help VCB to receive better credit room in the future.

2) Capital raising plan

VCB plans to issue 6.5% to investors in this period of 2023-2024. According to the information we collect, at the moment VCB is still in the progress looking for suitable investors for this deal. The plan is expected to be completed in 2024. This share issuance helps VCB improve the BASEL Capital Adequacy Ratio (CAR) about 200-250 bps.

The two deals so far have not materialized. Therefore, we have not included these assumptions in the valuation of VCB shares for the time being.

Valuation

We use the residual income method (RI) and the approach based on PB ratio, weighted at 60% and 40%, respectively. The target price for the stock for the next 12 months is estimated at VND94,600.

1) Issues with corporate bonds and concerns about the negative impact of the real estate market on Vietnam's banking system are important factors that have caused banking stocks, including VCB, to trade below average. 5 years average. In the short term, we are cautiously using a P/B ratio of 3.1x (1 standard deviation below average) to value VCB stock. With a BVPS forecast for 2023 at VND33,898, VCB's target price for the next 12 months is expected to fall to VND105,084.

2) For the residual income method, the share price for the next 12 months is estimated at VND 87,647.

Cost of Equity (%)	
Beta (x)	**11.8**
Adjusted beta (x)	4.5
Risk-free rate (%)	11.1
Equity risk premium (%)	0.7

RI Valuation Method

(VNDbn)	2023F	2024F	2025F	2026F	2027F
Cost of equity	11.8%	11.8%	11.8%	11.8%	11.8%
Cost of equity after 2026					11.8%
Net income	34,741	39,060	46,619	54,881	64,186
Residual income (RI)	18,395	20,067	20,989	25,518	30,234
PV of RI	**16,372**	**16,054**	**14,902**	**16,332**	**17,233**

Terminal value of RI (VNDbn)	**343,317**
Terminal growth (%)	2.00%

PV of RI (bn VND)	195,691
PV of terminal value (bn VND)	80,893
Beginning equity (bn VND)	137,988
Total value (bn VND)	414,572
Total outstanding shares (bn)	4.73
Target price (VND)	87,647

Source: Company data, Shinhan Securities Vietnam

Valuation Summary

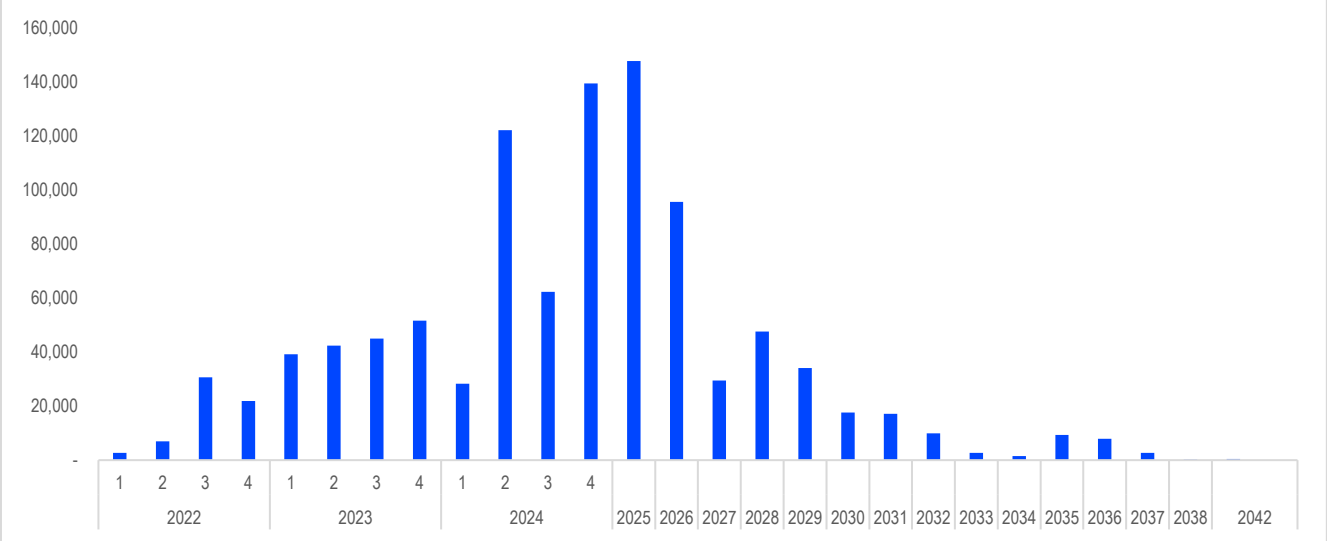
Method	Weight	Price target (VND)
Residual income	60%	87,647
P/B target (3.1x)	40%	105,084
Target price (VND)	**94,622**	

Source: Shinhan Securities Vietnam

Investment risk

1) Systemic risk associated with the corporate bond market. With a maturity value of more than VND 1,000 trillion, mostly matured in the period of 2023-2024. According to the summary from VBMA, more than 20% are bonds issued by real estate developers, not only that, real estate loans at the end of 2022 account for nearly 22% of the total credit balance of the whole bank system in Vietnam. In the context of high interest rates and loss of liquidity in many high-end real estate products, this will be an issue that we will closely monitor in the near future.

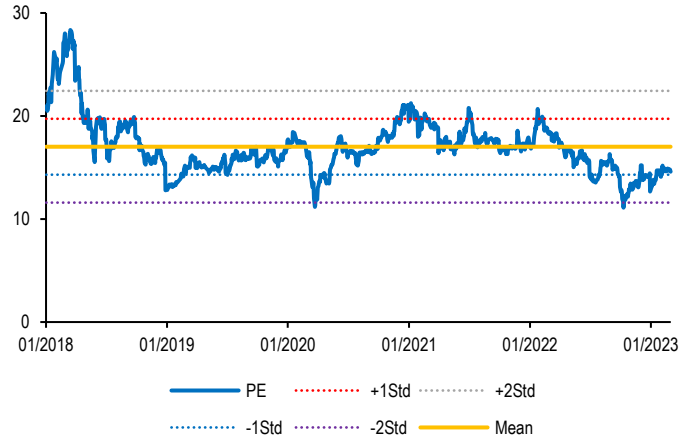
Maturing corporate bond values (VND billion)



Source: HNX, Company data Feb 28th 2023

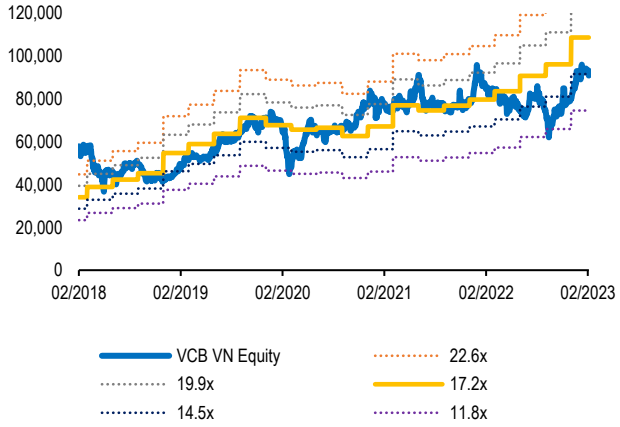
2) The possibility that the Fed will continue to raise interest rates in the 2023 may put exchange rate pressure on the State Bank of Vietnam as happened at the end of 2022. If this case happened, the SBV may come to a raising interest rate decision. The decision to raise interest rates will increase VCB's cost of fund and thus, may weaken NIM of the bank.

PER of VCB



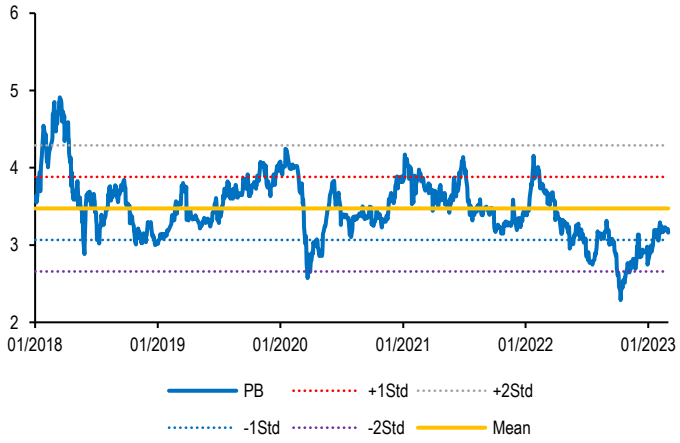
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER of VCB



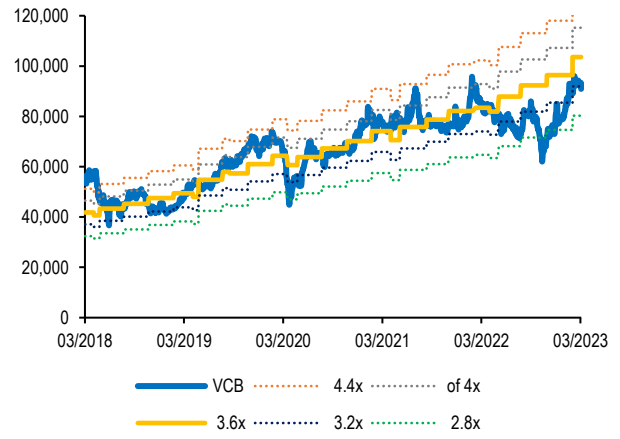
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of VCB



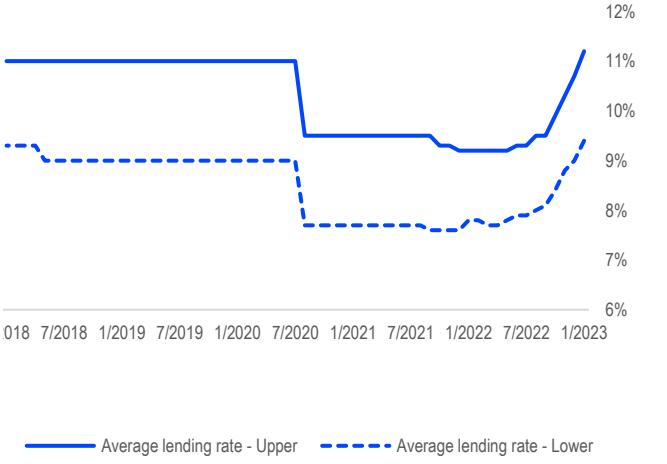
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of VCB



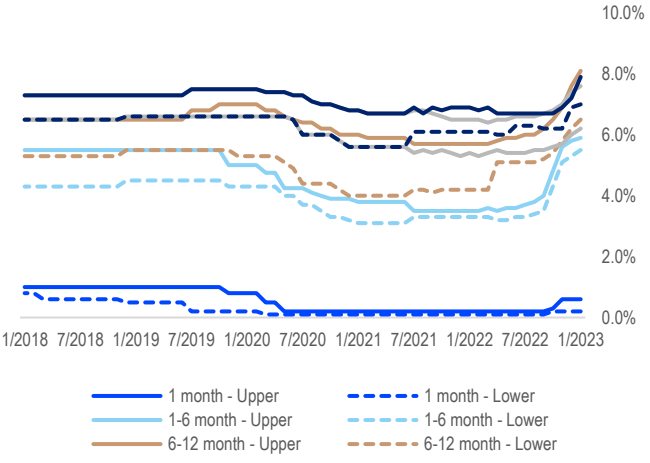
Source: SBV, Company data, Shinhan Securities Vietnam

Average lending rate in Vietnam



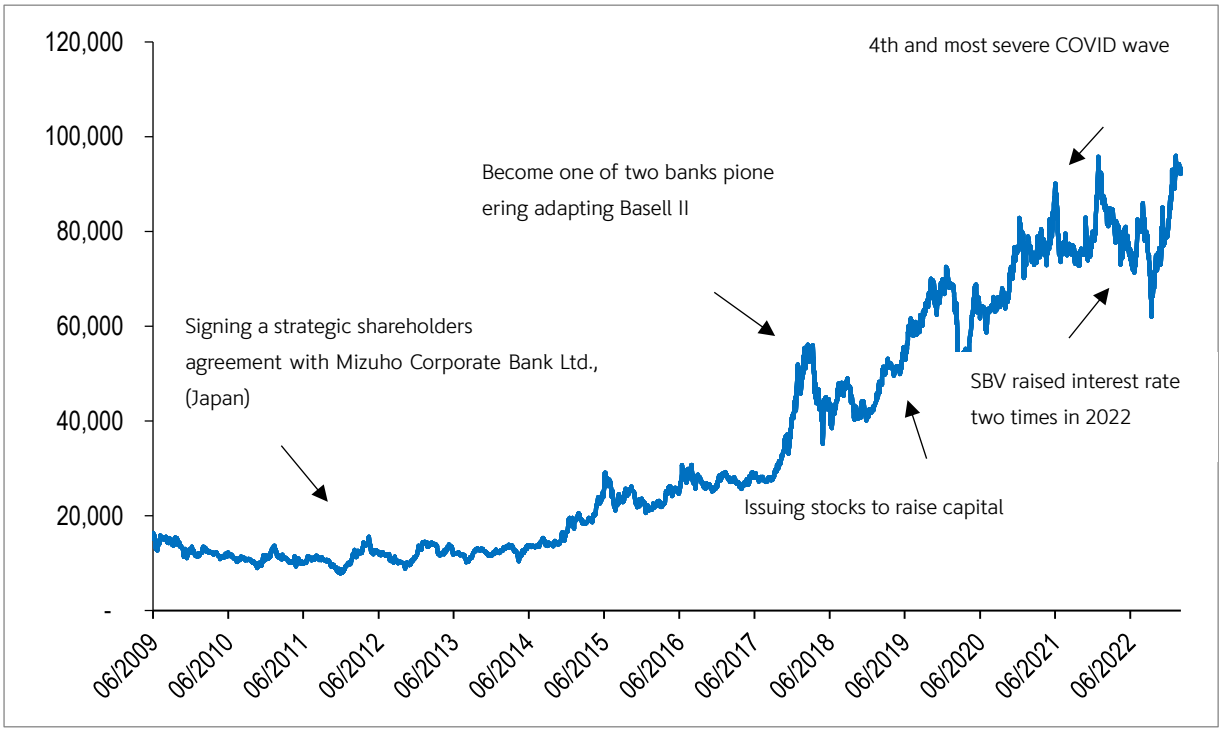
Source: SBV, Company data, Shinhan Securities Vietnam

Average deposit rate in Vietnam



Source: SBV, Company data, Shinhan Securities Vietnam

VCB key events



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Balance sheet

Year (bn VND)	2019	2020	2021	2022	2023F
Total assets	**1,222,814**	**1,326,230**	**1,414,986**	**1,814,188**	**1,956,572**
Cash and precious metals	13,778	15,095	18,012	18,349	18,938
Balances with the SBV	34,684	33,139	22,507	92,558	23,788
Placements with and loans to	249,470	267,970	225,765	313,592	350,110
Trading securities	1,801	1,954	2,766	1,500	1,963
Derivatives and other financial assets	98	0	303	157	157
Loans and advances to	724,290	820,545	934,774	1,120,287	1,263,349
Debts purchase					
Investment securities	167,530	156,931	170,605	196,171	222,047
Long-term investments	2,464	2,239	2,346	2,194	3,129
Fixed assets	6,707	8,539	8,626	7,985	8,741
Investment properties					
Other assets	21,808	19,817	28,969	61,397	64,350
Total liabilities	**1,141,859**	**1,232,135**	**1,305,555**	**1,676,200**	**1,796,235**
Due to Gov and Loans from SBV	92,366	41,177	9,468	67,315	80,778
Deposits and Loans from other	73,617	103,584	109,758	232,511	190,197
Deposits from customers	928,451	1,032,114	1,135,324	1,243,468	1,392,684
Derivatives and other financial liabilities		52			-
Funds received from Gov, international and other	20	15	8	3	3
Convertible bonds/CDs and other	21,384	21,240	17,388	25,338	29,139
Other liabilities	26,021	33,954	33,854	107,564	103,434
Shareholder's equity	**80,954**	**94,095**	**109,186**	**137,988**	**160,337**
Capital	42,429	42,429	42,429	53,130	53,595
Reserves	12,186	14,926	18,173	18,133	19,722
Retained earnings	26,127	36,650	48,503	67,500	86,909
Minority interest	84	85	87	88	111
Total liabilities and equity	**1,222,814**	**1,326,230**	**1,414,986**	**1,814,188**	**1,956,572**

Income statement

Year (bn)	2019	2020	2021	2022	2023F
Interest and Similar Income	67,665	69,205	70,622	88,113	102,238
Interest and Similar Expenses	(33,128)	(32,920)	(28,349)	(34,866)	(43,164)
Net Interest Income	**34,538**	**36,285**	**42,273**	**53,246**	**59,074**
Net Fee and Commission Income	4,309	6,607	7,407	6,839	8,263
From foreign currency and gold	3,378	3,906	4,375	5,768	7,498
From trading of trading securities	146	2	138	(115)	(138)
From disposal of investment securities	7	-	(85)	82	82
Net Fee and Commission Income	3,070	1,800	2,393	2,054	2,153
Dividends income	245	461	130	208	208
Total non-interest income	**11,155**	**12,776**	**14,358**	**14,836**	**18,066**
Total operating income	**45,693**	**49,063**	**56,630**	**68,083**	**77,140**
General and Admin expenses	(15,875)	(16,038)	(17,666)	(21,260)	(23,802)
Operating Profit Before Provision (PPOP)	29,819	33,024	38,964	46,823	53,338
Provision for credit losses	(6,607)	(9,975)	(11,478)	(9,464)	(9,912)
Profit before tax	**23,212**	**23,050**	**27,486**	**37,359**	**43,426**
Corporate income tax	(4,614)	(4,577)	(5,469)	(7,446)	(8,685)
Net profit after tax	**18,597**	**18,473**	**22,017**	**29,912**	**34,741**
Attributable to parent company	18,582	18,451	21,997	29,892	34,718

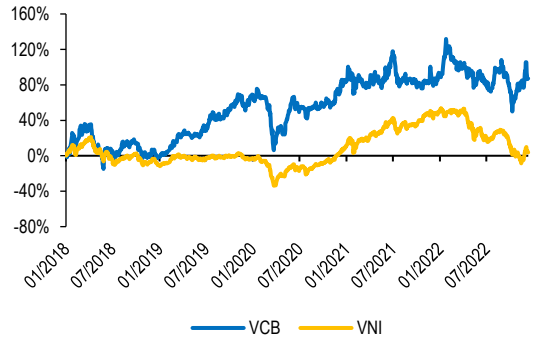
Financial indicators

Year	2019	2020	2021	2022	2023F
Growth (% YoY)					
Loans to customers	15.92	13.99	15.09	18.86	13.00
Deposits from customers	15.78	11.17	10.00	9.53	12.00
Shareholders' equity	30.20	16.23	16.04	26.38	16.20
Total assets	13.85	8.46	6.69	28.21	7.85
Net interest income	21.57	5.06	16.50	25.96	10.95
Net non-interest income	2.63	14.55	12.36	3.34	21.76
PPOP	16.18	10.75	17.99	20.17	13.91
Net profit before tax	27.05	-0.70	19.25	35.92	16.24
Net profit after tax	27.19	-0.67	19.18	35.86	16.14
Profitability (%)					
NIM	3.1	2.92	3.15	3.40	3.25
ROA	1.62	1.45	1.60	1.85	1.84
ROE	25.96	21.08	21.64	24.19	23.28
Liquidity (%)					
LDR	79.1	81.4	84.6	92.1	92.9
Loans/Deposits					
Asset quality	15.11	14.09	12.96	13.15	12.20
Leverage (x)	0.73	0.62	0.64	0.68	0.73
NPL ratio (%)	194.0	367.9	424.4	317.4	323.7
LLR ratio (%)	1.4	2.3	2.7	2.2	2.4
Reverse/total credit (%)	0.90	1.19	1.19	0.83	0.77
Credit costs/total loans (%)	0.89	1.18	1.18	0.82	0.76
Credit costs/total credit (%)					
Per share items (VND)	5,014	4,981	5,936	6,321	7,341
EPS	21,804	25,347	29,415	29,139	33,857
BPS	8,040	8,904	10,506	9,894	11,271

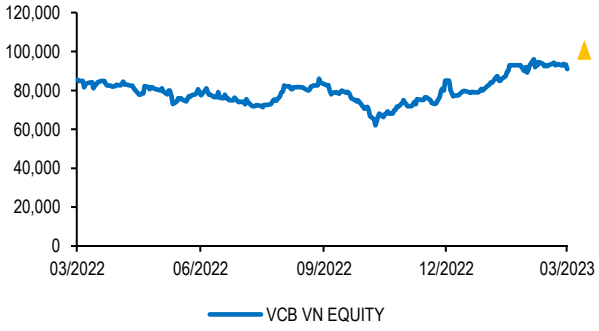
Source: Company data, Shinhan Securities Vietnam

Bank for Foreign Trade of Vietnam (VCB)

Price performance



Target price (VND)



Date	Recommendation	Target price (VND)	Range of price (%)	
			Average	Max/Min
11/03/2022 (Initial report)	BUY	87,200	9.7	-9.9/28.8
03/07/2023 (Update report)	HOLD	94,600	25.02	3.0/58.9

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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