



Vietnam Prosperity JSB (VPB)

[Vietnam / Bank]

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

BUY

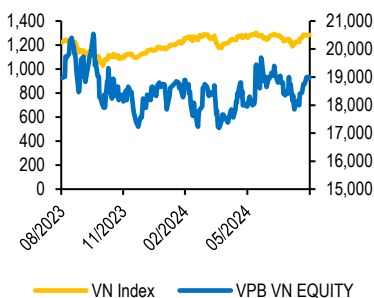
Initial report

Target price (12 months) **25,000 VND**
Current price (08/30/2024) **19,000 VND**
Upside/downside (%) **31.6%**

VNINDEX	1,285
PE forward 2024F	12.1
Market Cap (VNDbn)	150,745
Outstanding shares (bn)	7,934
Free float (bn shares)	7,091
52-week high/low (VND)	23,150/17,500
90-day avg. trading volume (mn)	19.71
90-day avg. turnover (VNDbn)	411
Foreign ownership (%)	25.91

Shareholder (%) **SMBC** **15.00**

Performance	3T	6T	12T
Absolute (%)	5.8	-4.5	-8.7
Relative to VN-Index (%)	4.4	-7.1	-14.6



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Final stage of restructuring process

Recommended BUY, target price 25,000 VND

Established in 1993, VPBank is a bank pursuing a modern retail strategy. VPB has grown strongly thanks to its ability to expand its branch network and transaction points nationwide, along with the development of diverse products. FE Credit, a subsidiary of VPBank, is currently nearing the end of its loan portfolio restructuring process. With a leading position in consumer finance, FE Credit expects to achieve positive growth in 2024 and recover more significantly in 2025-2028. In early 2023, VPB reached an agreement to sell a 15% stake to SMBC through a private placement. VPBank's capital adequacy ratio at the end of 2023 is the highest among listed banks in Vietnam. Two other subsidiaries, VPBankS (Securities) and OPES (Insurance) are also gradually contributing more to the bank's operations. Based on the excess return method and the P/B ratio comparison method, we estimate VPBank's 12-month target price at VND 25,000 per share, representing an upside potential of 31.6%.

Large capital supports VPB's upcoming growth

With the prospect of a consumer lending recovery and FE Credit nearing the end of its restructuring process, we believe VPBank's credit growth could exceed 20% per annum over the next two years. The bank's capital adequacy ratio stood at over 17% at the end of 2023 and is expected to be around 15% at the end of Q2 2024, with a liquidity ratio that complies with regulatory requirements, supporting the above growth assumption. Given its strong capital buffer and positive internal business growth, VPBank is likely to maintain cash dividend payments for the next five years. Additionally, management has shared that VPBank has submitted a proposal and is awaiting approval for a detailed plan regarding the restructuring of the weak institution GPBank, which is expected to be approved in 2024.

Non-performing loan is still at high level but is expected to gradually decrease in the coming years.

The bad debt formation rate shows signs of peaking, however, VPBank's group 2 outstanding debt at the end of Q2/2024 is still at a high level compared to history (contributed 7.83% of total loan). We believe that VPBank's Non-performing loan (NPL) in 2024 will be anchored at 5.1% (equivalent to the level at the end of Q2/2024) and may decrease by the end of 2025 when the economy maintains positive growth momentum.

Estimated business results 2024-2028F

Key assumptions for the period 2024-2028F: Total assets growth: 19.4%/year; Total credit growth: 21.5%/year; Equity growth: 12.9%/year (assuming cash dividend payment of 30% of annual profit); Target CAR ratio around 14%; NPL ratio peaks at 5.1% before gradually decreasing to below 4%; Credit cost/Credit balance controlled around 4.5-5%; NIM gradually improves to 7.5% by the end of 2027-2028; Profit after tax growth: 36.2%/year.

Risk 1) Slower-than-expected economic recovery may cause NPL pressure to persist; 2) Real estate market continues to recover slowly; 3) FE Credit recovers more slowly than expected

Year	2021	2022	2023	2024F	2025F
Net interest income (VNDbn)	34,349	41,021	38,175	53,001	73,585
Non-interest income (VNDbn)	9,953	16,776	11,569	11,623	14,183
Total operating income (VNDbn)	44,301	57,797	49,743	64,624	87,767
Provision and other expenses (VNDbn)	(29,938)	(36,577)	(38,756)	(47,529)	(63,837)
Profit before tax (VNDbn)	14,364	21,220	10,987	17,095	23,930
Credit growth (%)	18.7%	23.0%	25.4%	21.5%	24.4%
NIM (%)	7.91	7.50	5.58	6.36	7.41
ROE (%)	16.5	17.8	7.1	9.4	12.3

Source: Fiiipro, Company data, Shinhan Securities Vietnam

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Company background

Company history

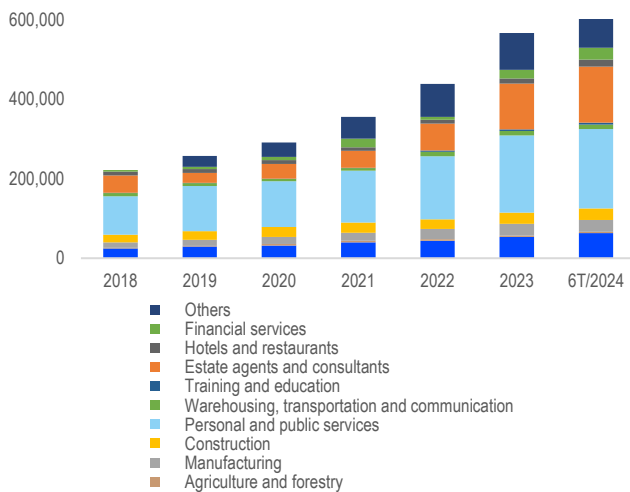
Vietnam Prosperity Joint Stock Commercial Bank (VPBank) was established in 1993. In 2010, VPB implemented a strategy to transform into a modern retail bank, during which the bank significantly expanded its branch network and transaction points. In 2015, the bank spun off its consumer credit business into a separate legal entity called FE Credit Company Limited. In 2017, VPB was listed on the Ho Chi Minh City Stock Exchange.

Sumitomo Mitsui (SMBC) has invested in VPBank twice: The first time was in 2021 when it acquired a 49% stake in FE Credit; the second time was in 2023, when SMBC purchased a 15% stake of VPBank through a private placement.

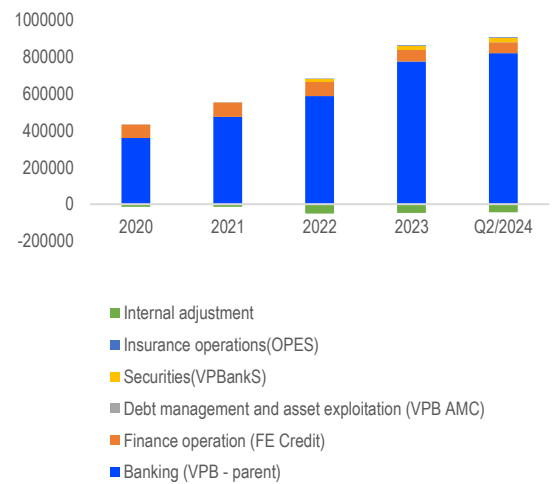
At the end of 2022, VPB acquired a 77.42% stake in ASC Securities and renamed it VPBank Securities ("VPBankS"). In the same year, VPB increased the capital of VPBankS to VND 15,000 billion. In addition to VPBankS, VPB acquired a 98% stake in OPES Insurance Joint Stock Company ("OPES").

Loan portfolio structure and corporate structure

VPBank's customer loan structure by industry group (VNDbn)

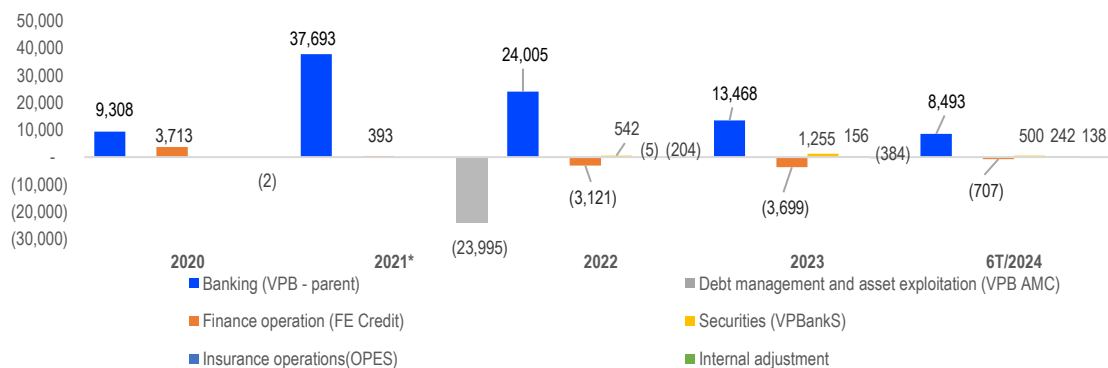


VPBank's asset structure (VNDbn)



Pre-tax profit of VPBank (parent) and subsidiaries (VNDbn)

Source: VPB, Fiinpro, Financial Statements, Shinhan Securities Vietnam



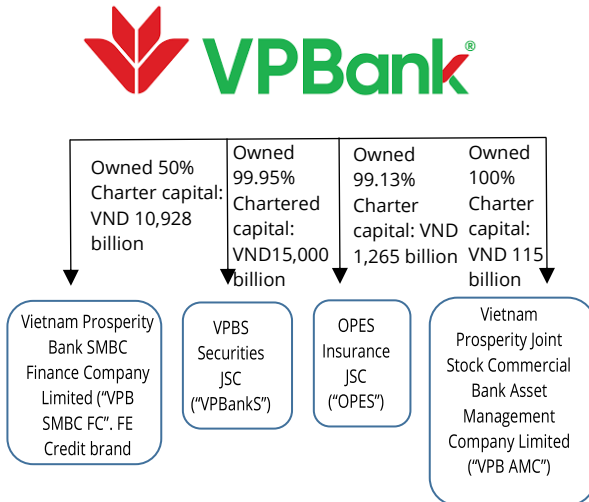
Source: VPB's departmental reports over the years, Shinhan Securities Vietnam

*2021: The sale of FE Credit resulted in an internal adjustment at the parent bank of nearly VND24 trillion

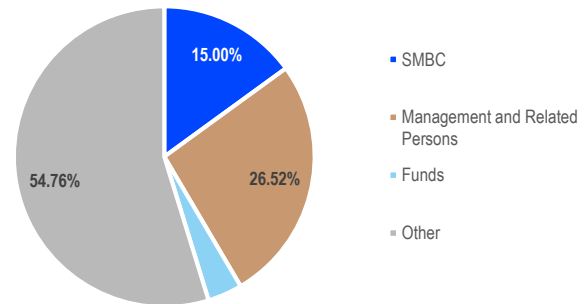
Ownership structure of VPB

- As of July 30, 2024, in terms of individual shareholders, Chairman Ngo Chi Dung holds 4.14%. The Board of Directors and related persons hold more than 26.52% in VPB's ownership structure
- Institutional shareholders other than strategic shareholders SMBC (15%) including DIERACORP Joint Stock Company 4.3957%, foreign fund Composite Capital MasterFund LP (2.7301%) and foreign fund Vietnam EnterpriseInvestments Limited (1.2839%)

VPBank's subsidiary system



VPBank's shareholder structure as of July 2024 (%)



Source: VPB

Investment Catalysts & Theses

Capital advantage supports loan growth for coming years

1. Lending growth was significant but there was a contrast between corporate and individual customers

Vietnam's total credit reached VND 13.6 quadrillion at the end of 2023, representing a growth rate of 13.71%. From 2018 to 2023, Vietnam's average credit growth was 13.5% per annum. At the end of 2023, Vietnam's total credit accounted for approximately 133% of GDP, of which 20% came from consumer lending. Household debt as a percentage of Vietnam's GDP at the end of 2023 was only 28%, lower than the average for developing countries at 40% (data from the WorldBank). This indicates that the consumer lending segment still has significant potential for future growth.

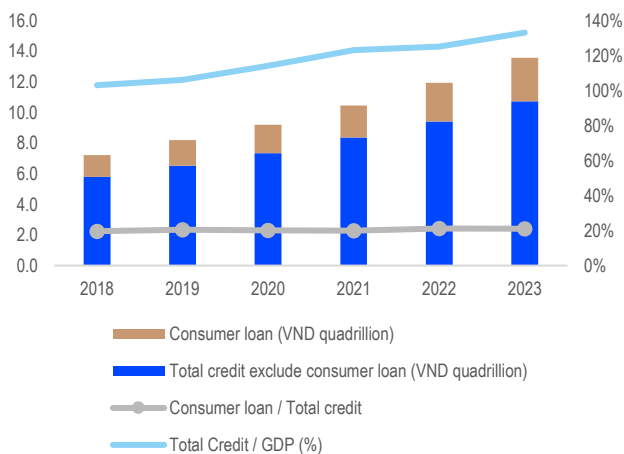
When compared within the same period, VPBank's credit growth outperformed the industry as a whole. VPBank's consolidated credit grew at an average annual rate of 20.7% between 2018 and 2023. VPBank's participation in the mandatory transfer of weak bank (specifically GPBank) has been a significant factor in obtaining more favorable credit room from the State Bank of Vietnam recently. In terms of the outstanding loan balance of private joint-stock commercial banks, VPBank, along with MBB and TCB, is one of the three banks with the largest outstanding loan balance in the system.

Lending to individual customers fluctuates around 48% to 55% of VPBank's total credit. In 2023-2024, the economic slowdown has significantly impacted the borrowing demand of the bank's individual customer segment. Individual customers are more vulnerable than corporate customers during periods of unfavorable economic growth. As a result, the proportion of loans to individual customers at VPBank has decreased significantly from 54.6% at the end of 2022 to only 48.2% at the end of 2023.

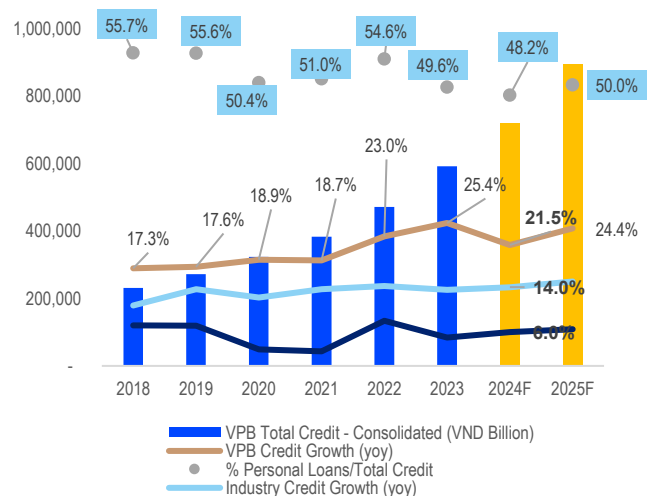
Amidst the challenging market for corporate bonds in 2022-2023, VPBank has proactively reduced its exposure to this segment. Currently, corporate bonds account for only about 2% of the bank's total credit, significantly lower than the peak of 7% at the end of 2022.

Credit growth is forecast to exceed 20% in 2024-2025: Positive economic growth signs, the recovery of consumer lending, and one of the highest CAR in the system are the fundamental factors supporting our credit growth forecast.

Credit to the entire Vietnamese economy (%)

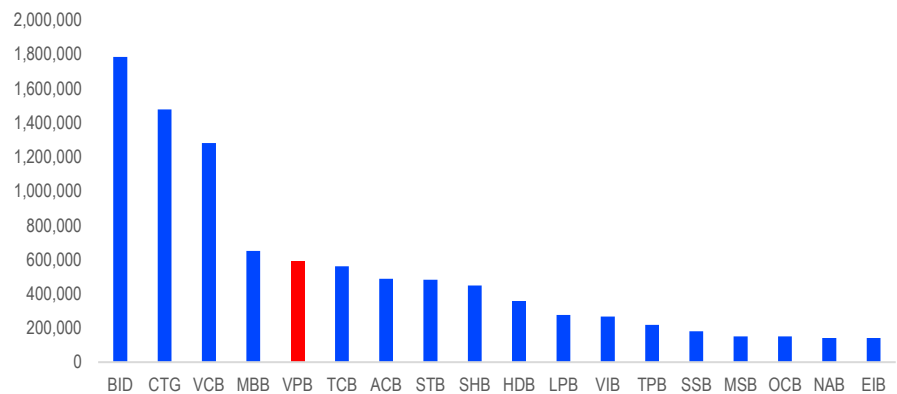


VPBank's credit growth stands out compared to industry average (%)



Source: Finpro, Company data, Shinhan Securities Vietnam

VPBank's credit compared to the group of banks listed on HOSE at the end of 2023 (VND billion)



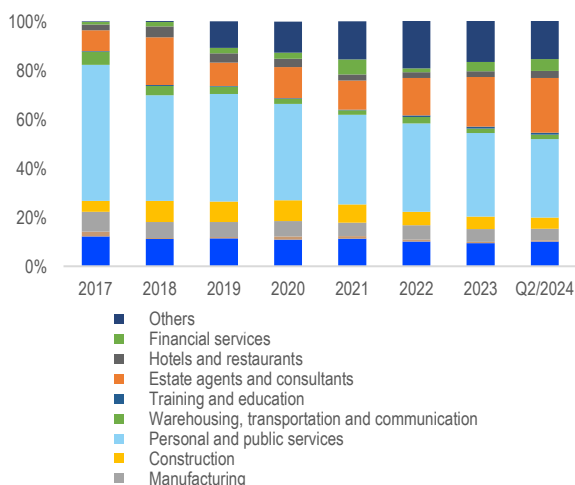
Source: Fiinpro, Company data, Shinhan Securities Vietnam

2. VPB focuses on lending for medium and long term

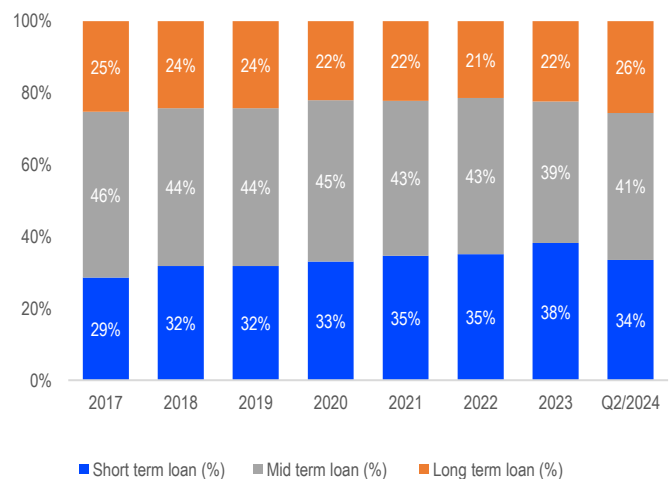
In recent years, VPBank has undergone a shift in its lending sector composition. VPBank has increased lending to the real estate and construction industries. At the end of Q2/2024, this sector accounted for 27% of VPBank's total loan portfolio (up from 19% at the end of 2021). Meanwhile, the personal and household lending segment has declined significantly as previously mentioned. Other industry groups such as commerce, manufacturing, and financial services have not experienced significant fluctuations during the same period.

Considering the loan term, at the end of Q2/2024, VPBank lent 41% for the medium term, 26% for the long term, and 34% for the short term. Compared to other banks, VPBank is among the group with the highest proportion of medium and long-term loans among HOSE-listed banks, averaging 62%-68% of the total loan portfolio.

Loan structure by industry group at the end of Q2/2024 (%)

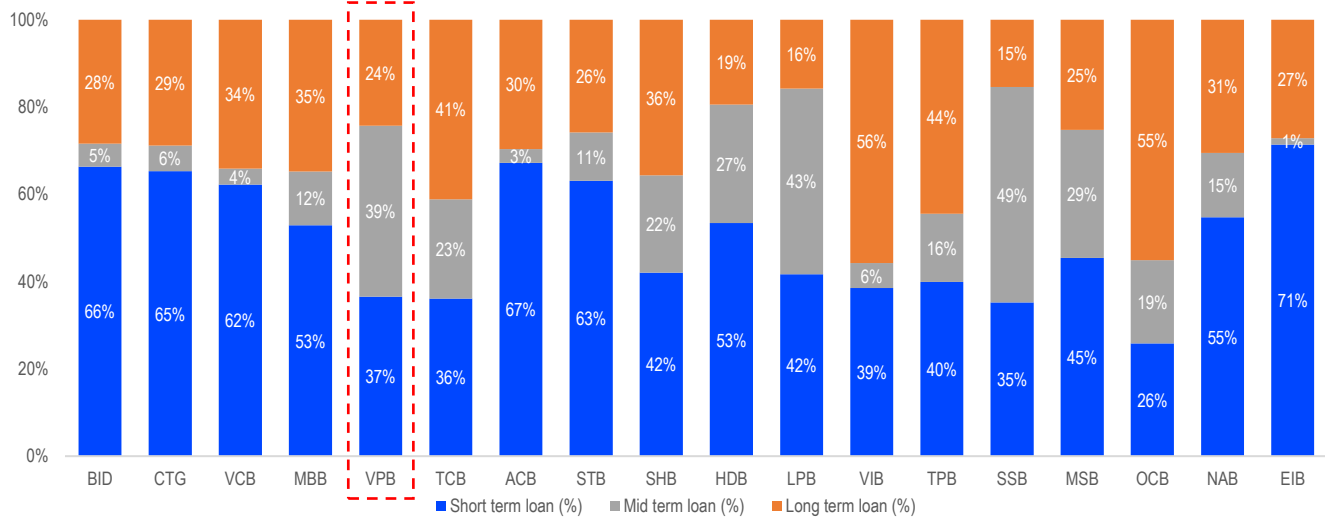


Loan structure by term (%)



Source: Fiinpro, Enterprise data, Shinhan Securities Vietnam

Loan structure by term of listed banks on HOSE at the end of 2023 (%)



Source: Fiinpro, Enterprise data, Shinhan Securities Vietnam

3. FE Credit restructured and shrank its balance sheet in the past 2 years.

Leading in the consumer finance market share, as of the end of 2023, it is still maintaining the top position in the industry, with a market share of approximately 40% of the outstanding consumer loan balance of the economy. Following closely behind are competitors M-Credit, HD Saison, and Home Credit. FE Credit's main loan products are cash loans and credit card loans.

After selling a 49% stake to SMBC, FE Credit's outstanding loan balance peaked in 2021 and declined in the 2022-2023 period. A significant increase in non-performing loans served as a catalyst for a comprehensive restructuring aimed at improving FE Credit's management processes. The surge in bad debts put pressure on FE Credit's provision costs, causing a sharp decline in pre-tax profit from VND 3,700 billion in 2020 to VND 610 billion in 2021, before incurring losses for two consecutive years in 2022 and 2023.

FE Credit's outstanding loan balance experienced a healthy CAGR of 14% per year between 2018 and 2021. However, 2022 marked the first year of negative growth, contracting nearly 9%. After SMBC deepened its involvement in VPB through a 15% private placement in early 2023, FE Credit proactively curtailed lending and prioritized reducing its internal non-performing loans. The company's outstanding loan balance at the end of 2023 decreased by more than 18% compared to the same period last year. Between 2018 and 2021, FE Credit accounted for approximately 20-24% of VPB's loan portfolio. This figure decreased to only 10% of VPB's loan portfolio by the end of 2023.

At the Q2/2024 Analyst Meeting, the management team stated that FE Credit had reached the end of its restructuring process and that FE Credit's outstanding loan balance had returned to positive growth.

In the long term, the following key factors will support the growth of the personal consumer lending segment:

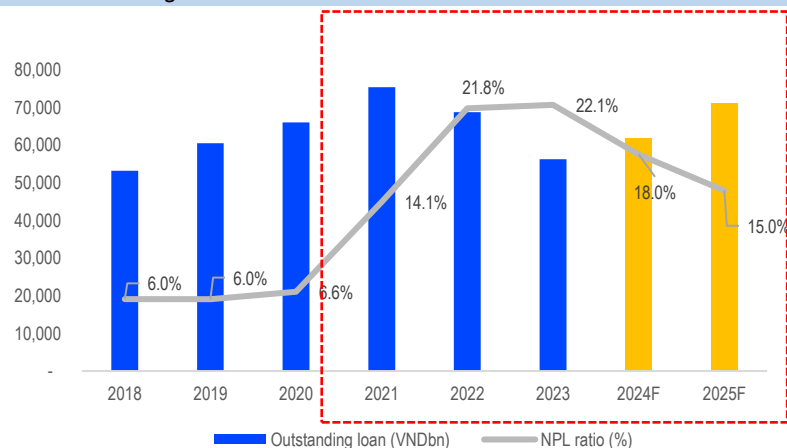
- Vietnam's GDP growth over the next 5 years is forecasted to reach approximately 6%-6.5% per year.
- Income growth and the proportion of the middle class are increasing rapidly. According to a report by the Ministry of Labor, Invalids, and Social Affairs, the proportion of the middle class is projected to increase to 26% by the end of 2026 (from 13% in 2023).
- The household debt-to-GDP ratio is low compared to developing countries. According to

WorldBank data, this ratio in Vietnam is currently at 28% at the end of 2023, lower than the average of about 79% for developing countries.

- Regulatory support from the State Bank of Vietnam. Circular 12/2024/TT-NHNN amending Circular 39/2016/TT-NHNN has added a provision for consumer loans below 100 million VND that do not require a feasible use of funds plan. This change makes it easier for banks to reach this customer segment.

We forecast that FE Credit's loan balance will grow slightly below 10% in 2024. Subsequently, there will be a more significant recovery in the following period, with an average for the 2024-2028F period above 20%, focusing on the end of 2025-2026.

FE Credit's outstanding loans and NPL



Source: VPB, Fiinpro, Company data, Shinhan Securities Vietnam
Estimated data for FE Credit, detailed data will not be shared by VPB after 2021

4. OPES Insurance has made many strides. VPBankS has a lot of potential but needs time.

OPES Insurance was acquired by VPB at the end of 2022. OPES provides non-life insurance packages on a digital platform such as property insurance for automobiles, civil liability insurance for motorcycles and automobiles, flight delay insurance, home and family insurance, etc. In 2023, OPES insurance brought VPB a pre-tax profit of VND 156.2 billion. OPES aims to achieve VND 873 billion in 2024. As of 6M/2024, OPES has achieved approximately 28% of its annual plan. OPES has shown good growth since 2022, however, its contribution to VPB's pre-tax profit is still relatively modest.

VPBankS Securities aims to increase its market share in brokerage, increase margin lending, and provide wealth management products. Thanks to the charter capital of VND 15,000 billion from VPB (parent company) at the end of 2022, VPBankS's outstanding loans in 2023 grew by 118.5%, reaching VND 7,168 billion. As of the end of Q2/2024, VPBankS's outstanding loans reached VND 9,000 billion (+28% YTD), bringing the group over VND 500 billion in pre-tax profit. However, compared to the annual profit plan of approximately VND 1,902 billion, VPBankS's performance is significantly lower. VPBankS's loan size still has a lot of room for growth as the company's equity is at 16,445 billion VND at the end of 2023.

Capital mobilization growth in line with strong credit growth

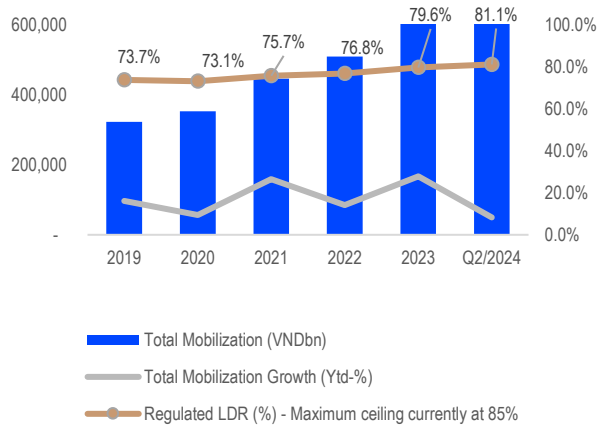
Customer deposit mobilization improved to 65-70%

Thanks to the period of high deposit interest rates in the first half of 2023, coupled with a decrease in borrowing demand for business expansion in many industries, VPBank has successfully attracted a significant amount of customer deposits into its system. The proportion of customer deposits at the end of 2022 was 59.6% of total mobilized funds, and by the end of 2023, this figure had increased to 68%. The Loan-to-Deposit Ratio (LDR) as announced by VPB (Parent) at the end of Q2/2024 was 81.1%,

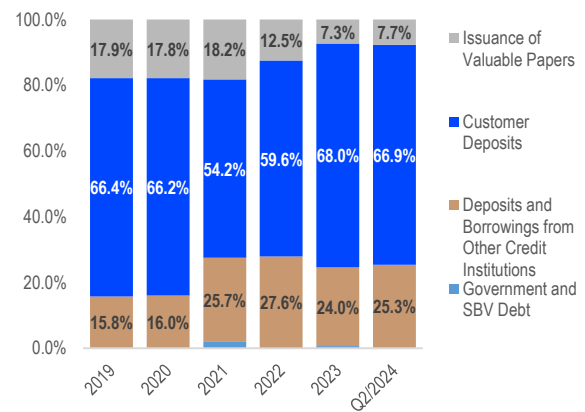
lower than the State Bank's regulatory limit of 85%. VPB (Parent)'s LDR has increased noticeably in the past two years, and we believe that in the future, VPBank needs to continue actively attracting deposits from both Market 1 and 2 to support future credit growth. The ratio of short-term funds to medium and long-term loans of VPB (Parent) is well controlled (23.5% at the end of Q2/2024) and is well below the State Bank's regulation (30%).

When compared to the entire industry, VPBank has a similar funding structure to many other commercial banks in the system.

Total mobilization of VPBank in the period 2019-2024

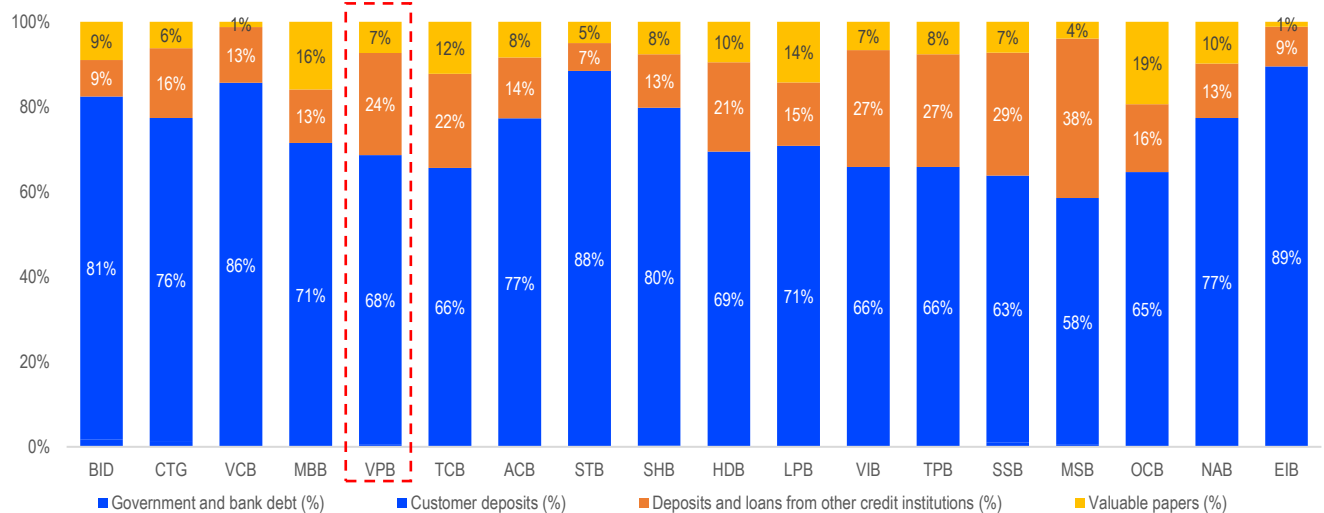


VPBank's total mobilization structure over the years (%)



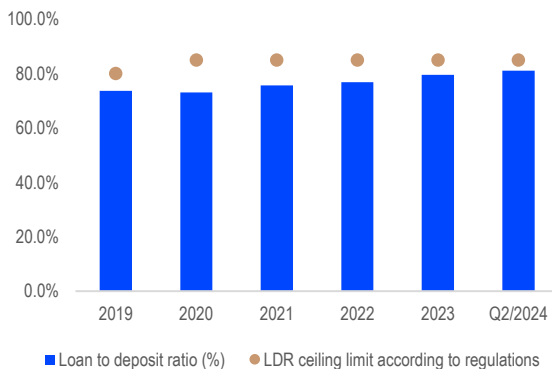
Source: Fiinpro, Enterprise data, Shinhan Securities Vietnam

Mobilization structure of listed banks on HOSE at the end of 2023 (%)

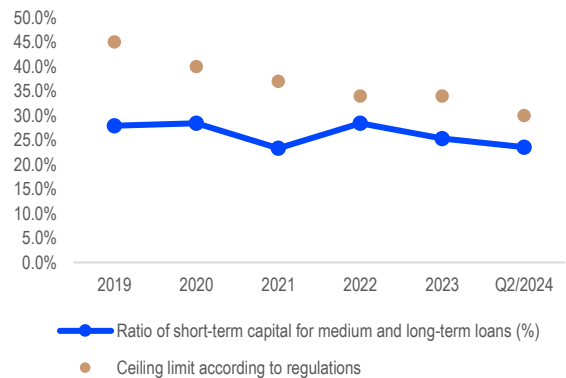


Source: Fiinpro, Enterprise data, Shinhan Securities Vietnam

VPB LDR Ratio (Parent) (%)



Ratio of short-term capital for medium and long-term lending of VPB (Parent) (%)



Nguồn: VPB, Fiinpro, Dữ liệu doanh nghiệp, Shinhan Securities Vietnam

NIM expected to improve as consumer lending accelerates

Rapidly shrinking NIM makes VPBank's interest income faced difficulties in 2023

Despite the impressive growth of earning assets (+26% per year), VPBank's net interest income fluctuated between 2018 and 2023 and only achieved an average annual growth rate of 9.1%. However, for VPB (parent company) alone, the growth rate during the same period reached 20% per year. In 2023, VPBank's net interest income decreased slightly by 6.9% even though it was a year of more than 32.1% growth in earning assets.

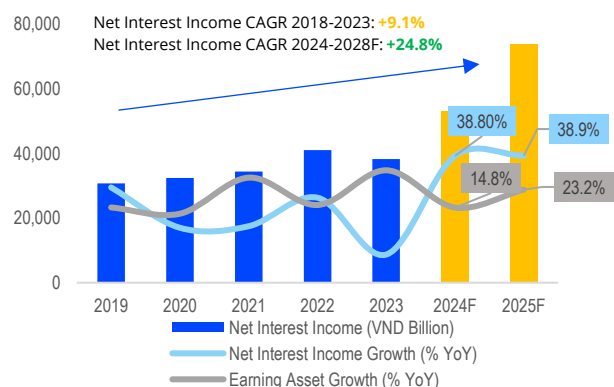
This contrast reflects the opposite business performance between VPB (parent) and FE Credit. The proportion of FE Credit's outstanding loans to VPBank's total outstanding loans has gradually decreased from a peak of 24.5% to only about 10% of VPBank's total outstanding loans. FE Credit's net interest income peaked at over VND 17,818 billion in 2019 (accounting for more than 58% of VPBank's total net interest income) and then decreased to only VND 10,381 billion in 2023 (accounting for more than 27% of VPBank's total net interest income). Meanwhile, the two newly acquired subsidiaries, VPBankS and OPES, which were consolidated into VPBank's financial statements from 2022, contributed less than 5% of VPBank's total interest income.

In terms of the structure of earning assets, customer loans account for an average of 70-76% of total earning assets. In addition to customer loans, debt securities (mainly consisting of government bonds and debt securities from other credit institutions) along with the interbank market and deposits with the State Bank will be adjusted flexibly depending on market conditions.

VPBank's profitable assets over the years (VNDbn)



Net interest income over the years 2019-2025F (VNDbn)

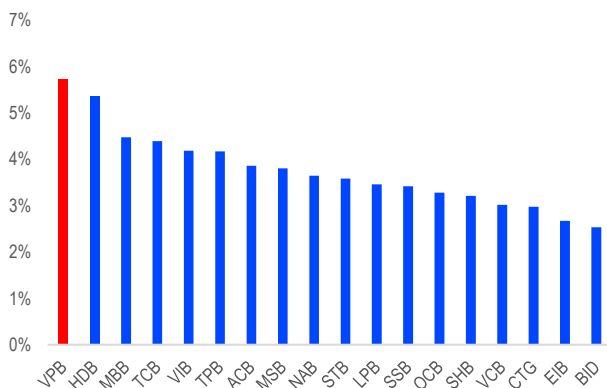
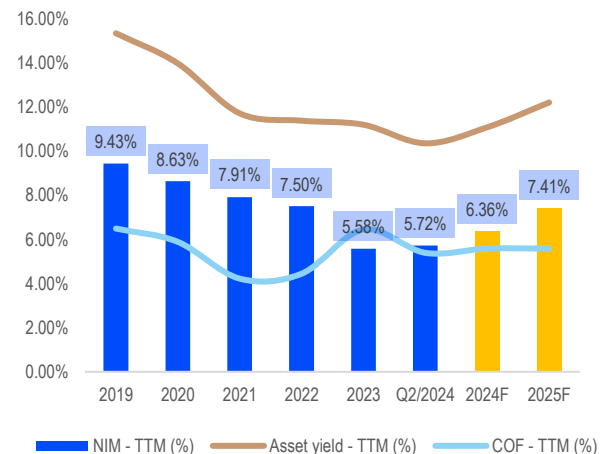


Source: Fiinpro, Company data, Shinhan Securities Vietnam

Asset growth combined with expanding NIM expected to help interest income recover

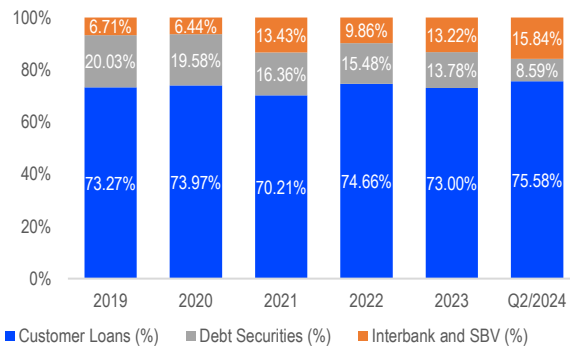
With a higher proportion of consumer loans compared to other banks, this customer segment often has a much higher NPL rate than corporate customers. Therefore, VPBank's consolidated Net Interest Margin (NIM) has consistently ranked highest among listed banks for many years. VPBank's consolidated NIM has continuously declined for the past five years, from 9.43% at the end of 2019 to 5.58% at the end of 2023. This sharp decline is largely due to the decrease in FE Credit's NIM, from 31.3% at the end of 2019 to only 14.3% at the end of 2023. Meanwhile, except for 2023 (due to the overall industry trend), the NIM of VPB (parent company) has increased steadily over the years.

We believe that the completion of FE Credit's restructuring process will help to positively increase VPBank's interest income in the next two years. NIM has shown positive signs with a slight recovery to 5.7% at the end of Q2/2024. We expect the group's NIM to increase to 6-7% during this period. Combined with the assumption of 15% growth in earning assets for 2024 and 23.2% for 2025, VPBank's net interest income in 2024F and 2025F could achieve growth of over 38% per year. Earning assets at the end of 2025 are projected to more than double compared to 2021.

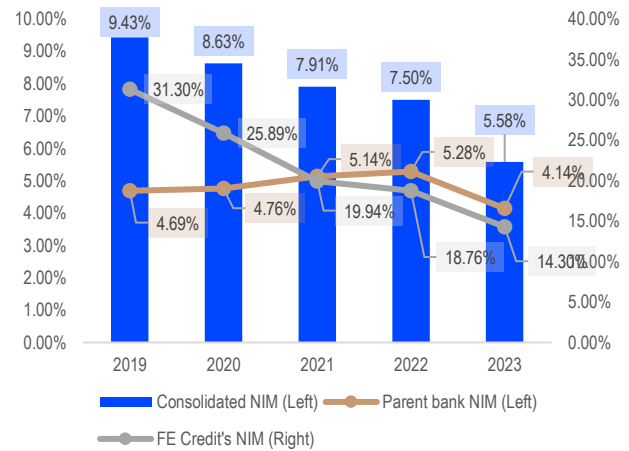
VPBank's NIM (%) compared to banks listed on HOSE Q2/2024**VPBank's Net Interest Margin (NIM), Asset Yield and Average Cost of Funds (COF) (TTM)**

Source: Finpro, Company data, Shinhan Securities Vietnam

VPBank's interest-earning asset structure (%)



Net interest margin (NIM), asset yield and cost of funds (COF) of VPB (parent) and FE Credit (TTM)



Source: Finpro, Company data, Shinhan Securities Vietnam

Estimated data for FE Credit, detailed data will not be shared by VPB after 2021

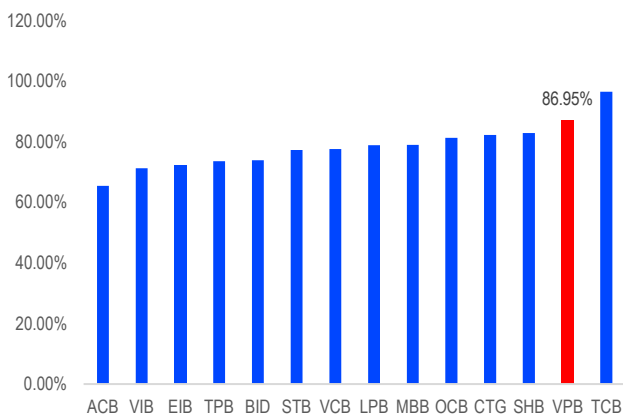
Asset quality shows some positive signs

Capital adequacy ratio (CAR) at the highest level in the industry

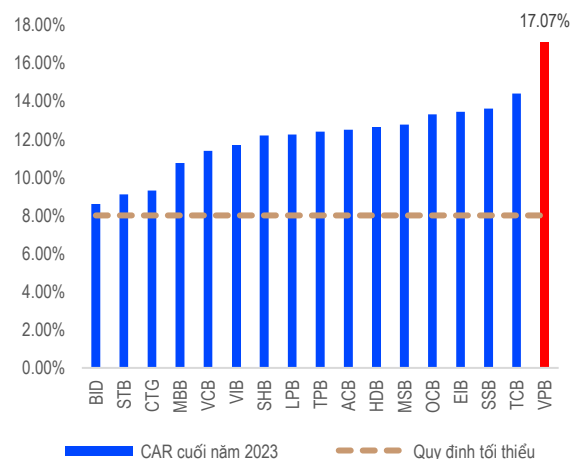
"After receiving capital from SMBC, VPBank's Capital Adequacy Ratio (CAR) at the end of 2023 was the highest in the industry at 17.07%. At the beginning of 2024, VPBank implemented a cash dividend policy for shareholders, causing a slight decrease in its CAR, which is currently above 15%. VPBank, along with TCB, is one of the banks with the highest ratio of Credit risk weighted assets to total assets, but VPBank's capital buffer is sufficient and well above the State Bank's 8% requirement.

In detail, VPBank's high risk weight is concentrated in sectors such as real estate, construction, and manufacturing, which are sectors primarily focused on corporate customers. The retail and SME segments, which focus on personal loans, home loans, and household services/manufacturing, have a lower average credit risk weight (75-80%). With expectations of a recovery in the retail and SME segment in the near future, the credit risk weight in VPBank's portfolio will decrease, and its large CAR advantage will continue to be maintained for the next two years.

Credit risk weighted assets /total assets as of end-2023

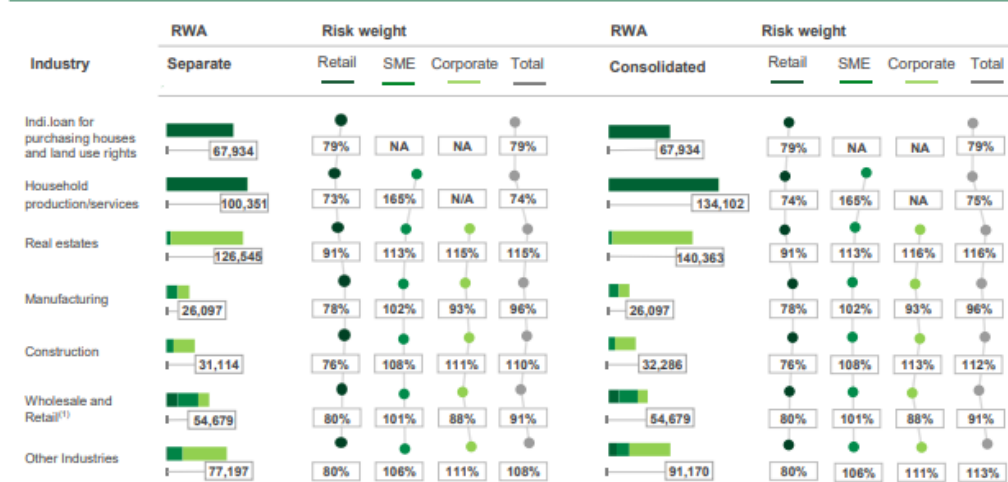


VPBank's CAR compared to other banks at the end of 2023



Source: Company data, Fiiipro, Shinhan Securities Vietnam

Credit risk weight of VPBank according to capital adequacy ratio report (%)



(1) Wholesale and Retail: Auto, Motorbike and Other motor vehicle industry

Source: VPB's Q1/2024 Capital Adequacy Ratio Report, Company Data, Fiiipro, Shinhan Securities Vietnam

Subsidiary NPL ratio expected to decrease, but VPB (parent) NPL ratio continues to be high

At the 2024 Annual General Meeting of Shareholders, VPB (parent) set a target of controlling bad debts at the parent bank below 3%. We believe this is a relatively challenging target for the parent bank in the context of Group 2 loans at the end of Q2/2024 reaching 44,602 billion VND (+43.4% Ytd), accounting for 7.98% of the loan portfolio. The NPL ratio of VPB (parent company) was at 3.31% end of Q2/2024, and we assume that this ratio will remain at high level until the end of 2024.

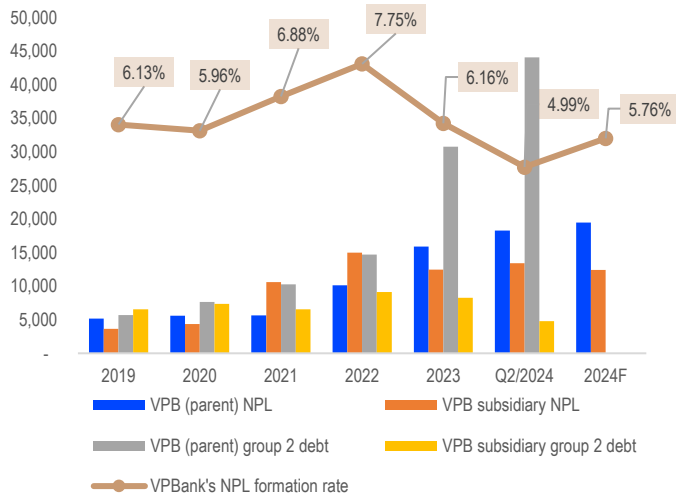
The NPL ratio at FE Credit has not been specifically shared by the leadership. Based on our assumptions, FE Credit's NPL ratio could fall below 20% at the end of 2024 and 15% in 2025.

Accordingly, the group's NPL ratio would remain at 5.1% in 2024 before decreasing in 2025. The above NPL ratio does not include restructured bad debts under Circular 02/2023/TT-NHNN, which expires at the end of 2024. VPBank stated that it has fully provisioned for this debt group according to the State Bank's regulations.

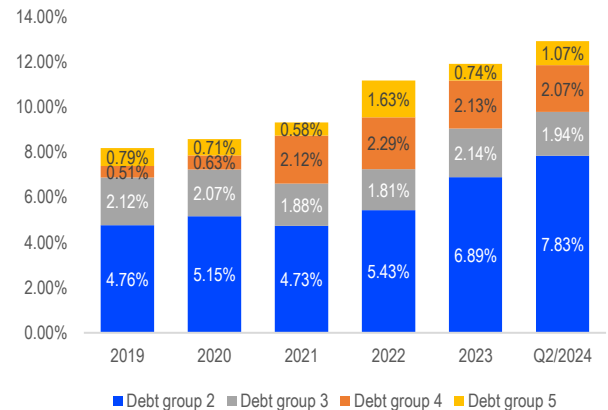
Regarding VPBank's loan loss coverage (LLR), the bank stated that it will continue to maintain its current provisioning policy. VPBank's LLR usually fluctuates around 45-55%, and we assume that this ratio will remain at 52% at the end of 2024 and increase to 55% in 2025. The reason why VPBank can maintain provision at around 50% is due to a low Loan-to-Value (LTV) ratio of about 37% in Q2/2024. Of which, for home loans, the LTV ratio is at 50%, and for real estate businesses, the LTV ratio is around 30%. *

With the forecast of NPL and provisions, we believe that VPB will continue to face pressure to increase provisioning costs in the next two years to write off and handle on-balance sheet NPL.

Group 2 debt and NPL of VPBank (%)

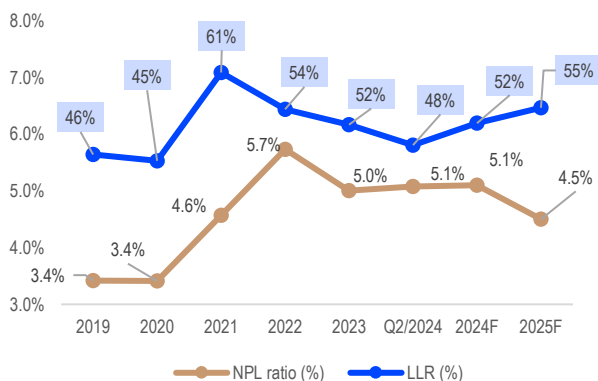


VPBank's debt ratio of groups 2-5 (%)

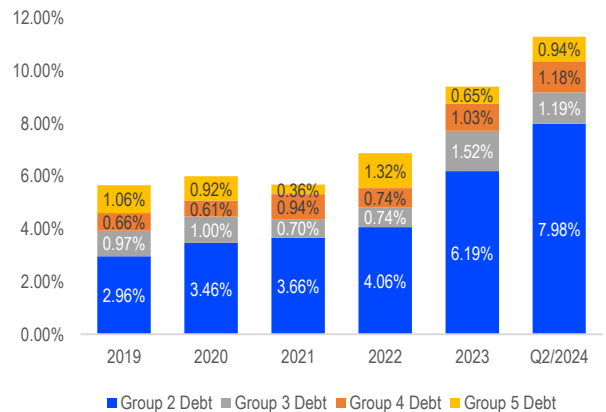


Nguồn: Dữ liệu công ty, Finpro, Shinhan Securities Vietnam

VPBank's credit risk cost, bad debt coverage ratio (%)



VPB (parent) Group 2-5 debt (%)



Source: Company data, Finpro, Shinhan Securities Vietnam

*According to regulations, credit institutions will have to set aside specific provisions according to the formula (the detailed formula is stipulated in Decree 86/2024/ND-CP):

(Principal outstanding balance – collateral deducted value) x Specific provisioning ratio

Specific provisioning ratios Group 1: 0%; Group 2: 5%; Group 3: 20%; Group 4: 50%; Group 5: 100%

General provisions will have to be set aside at 0.75% of debt from group 1 to group 4.

Non-interest income still faces headwinds

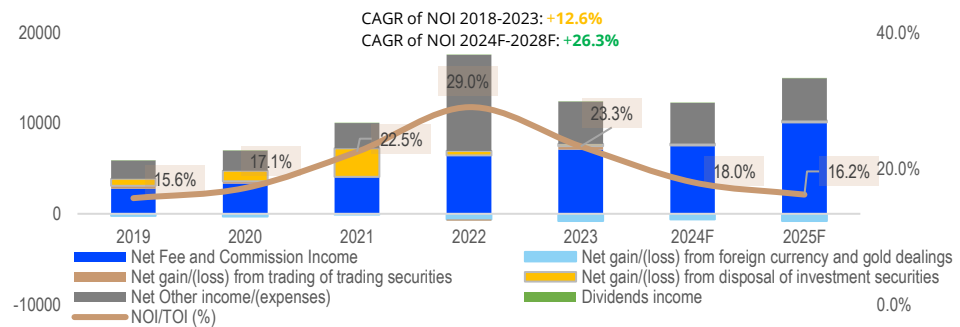
Positive growth from low base

Similar to many other banks, VPBank's fee and commission income in the past two years has been affected by the sluggishness of the life insurance segment. However, the trend of cashless payments has helped fee income related to payments and cards grow positively. In Q2/2024, the insurance fee segment decreased by 54% YoY, while cards and payments grew by 20.2% and 13.7% YoY, respectively. The newly issued Circular 34/2024/TT-NHNN has abolished the regulation prohibiting banks from acting as insurance agents for investment-linked insurance products. However, we believe that the

bancassurance segment for the rest of 2024 will likely continue to be sluggish and only resume slight growth in 2025.

Non-interest income in 2024 is forecasted to be at VND 11,623 billion, flat compared to 2023. And it is expected to grow at 22%, reaching VND 14,183 billion. In addition to the fee and commission income segment, VPBank is actively pursuing debt recovery. With a high level of non-performing loans in the past two years, we believe that VPBank can increase other income related to the disposal of assets from non-performing loans.

VPBank's Non-Interest Income (NOI) (VND Billion)



Source: Company data, Finpro, Shinhan Securities Vietnam

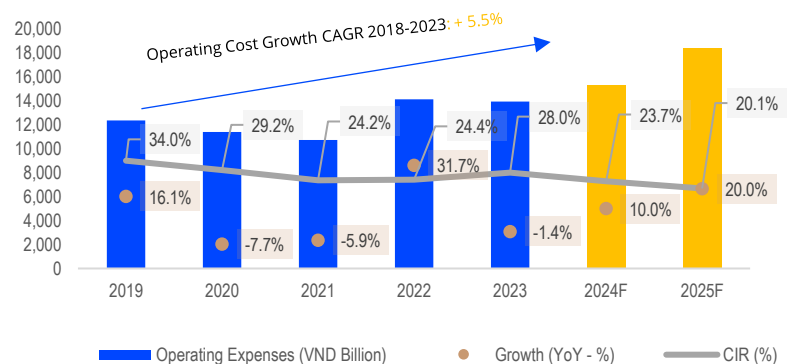
* In 2022, VPB recorded extraordinary other profits of more than VND8,000 billion from signing an exclusive Bancassurance distribution agreement with AIA

Cost/income ratio (CIR) is forecasted to be controlled around 20-25%

1. Operating expenses grow in line with VPBank's growth rate

Operating Costs: In 2023, VPBank's reported staff numbers decreased by more than 4,000, resulting in a slight decrease in operating costs for the given year. We forecast VPBank's operating costs to increase by 10% in 2024F and 20% in 2025, consistent with the assumption of a recovery in the retail and SME lending segment in 2025.

Operating costs and CIR (%)

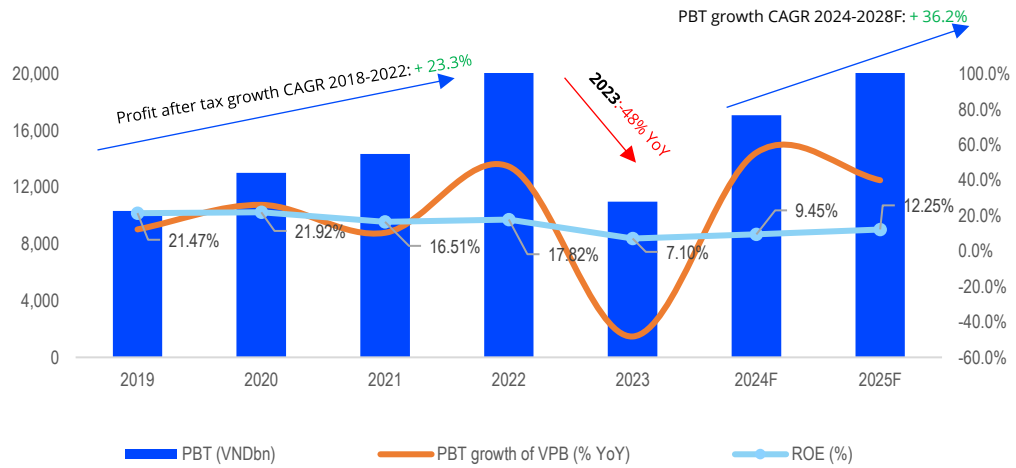


Source: Company data, Finpro, Shinhan Securities Vietnam

We anticipate a rebound in profit growth starting in 2024

With the assumptions mentioned in the previous sections of the report, we believe that VPBank's net profit before tax (PBT) has bottomed out in 2023 and expect it to grow positively in the following years. In 2024, we forecast PBT to reach VND 17,095 billion (+55.6% YoY), lower than the company's annual target of VND 23,165 billion. In 2025, VPBank's PBT is expected to continue its recovery and increase by 40%. Considering the average for the period 2024-2028F, we forecast average profit growth to reach 36.12% per year. (The high growth rate is due to the low base from deep decline in 2023)

VPBank's net profit and ROE over the years



Source: Company data, Fiiipro, Shinhan Securities Vietnam

Forecast business results for the period 2024-2028

Summary of assumptions for forecasting business results

Growth Assumptions for 2024-2028F:

- Total assets growth: 19.4%/year
- Total credit growth: 21.5%/year
- Equity growth: 12.9%/year (assuming cash dividend payment of 30% of annual profit)
- Target CAR ratio around 14%
- NPL ratio peaks at 5.1% before gradually decreasing to below 4%
- Credit cost/Credit balance controlled around 4.5-5%
- NIM gradually improves to 7.5% by the end of 2028
- Profit after tax growth: 36.2%/year

Indicators	2022	2023	YoY	2024F	YoY	2025F	YoY
Total credit (including corporate bonds) (VND bn)	471,230	590,947	+25.4%	717,941	+21.5%	893,306	24.4%
Deposits from customers (VND bn)	303,151	442,368	+45.9%	508,724	+15.0%	635,905	25.0%
NPL (%)	5.73	5.01		5.10		4.5	
NIM (%)	7.50	5.58		6.36		7.41	
Net interest income (VND bn)	41,021	38,175	-6.9%	53,001	+38.8%	73,585	39.0%
Non interest income (VND bn)	16,776	11,569	-31.0%	11,623	+0.5%	14,183	22.0%
Total operating income (VND bn)	57,797	49,743	-13.9%	64,624	+29.9%	87,767	35.8%
Provision expense (VND bn)	(22,461)	(24,844)	+10.6%	(32,226)	+29.7%	(45,474)	+41.1%
Operating expense (VND bn)	(14,116)	(13,912)	-1.4%	(15,303)	+10.0%	(18,364)	+20%
Net profit before tax (VND bn)	21,220	10,987	-48.8%	16,170	+55.6%	23,930	40.0%

In 2024, we forecast VPBank's pre-tax profit at VND16,170 billion (+55.6% YoY). By the end of 6M/2024, VPBank's pre-tax profit will reach VND8,493 billion, reaching 52.5% of our annual forecast. In 2025, VPBank's pre-tax profit is expected to reach VND23,930 billion (+40% YoY).

Valuations and Recommendations

Initial valuation with BUY recommendation, target price VND 25,000

We initiate our valuation on Vietnam Prosperity Joint Stock Commercial Bank (VPB) with a BUY recommendation and a target price of VND25,000, with an upside potential of 31.6%.

Valuation method

P/B Comparative Valuation Method: Assuming VPB will reach its optimal CAR of around 14% in 2026, we take the target P/B of 1.5x above the base level in 2026 (the average level of banks listed on HOSE, excluding the group of State-owned commercial banks). The equivalent target P/B at the time of the report is 1.3x. With BVPS in 2024 at VND 18,846/share, the target VPB share price for the next 12 months is VND 24,584/share.

With the Residual Income method, VPB's target share value is estimated at VND 25,357/share.

Cost of Equity (%)	
Cost of Equity (%)	13.2
Risk-free rate (%)	2.9
Equity risk premium (%)	9.00
Beta	1.15

RI Method					
(Unit: VNDbn)	2024F	2025F	2026F	2027F	2028F
Cost of equity	13.2%	13.2%	13.2%	13.2%	13.2%
Cost of equity after 2028					13.2%
Net income	13,676	19,144	28,852	38,468	47,014
Residual income (RI)	-5,501	-1,555	5,927	12,421	17,003
PV of RI	-5,169	-1,290	4,343	8,036	9,713

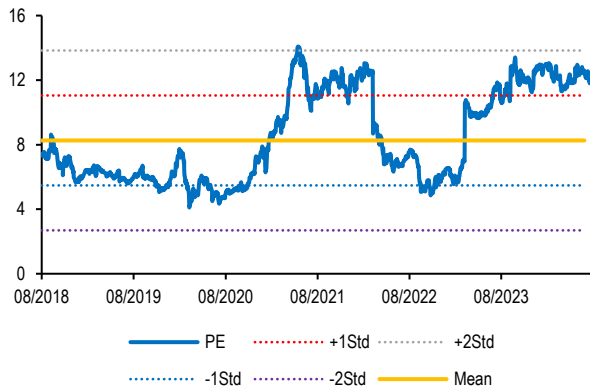
Terminal value of RI (VNDbn)	171,165
Terminal growth (%)	2.00%

PV of terminal value (VNDbn	97,778
PV of RI (bn VND))	15,632
Beginning equity (bn VND)	138,067
Conglomerate discount	20%
Total value (bn VND)	201,182
Total outstanding shares (bn)	7.93
Target price (VND)	25,357

Valuation Summary		
Method	Weight	Price target (VND)
Residual income	60%	25,357
P/B target (1.3x)	40%	24,584
Target price (VND)		25,048

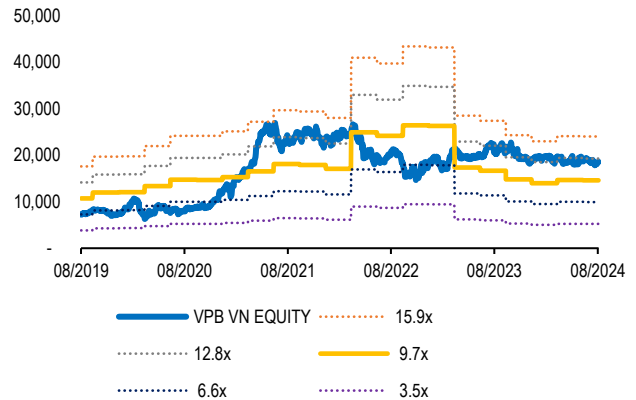
Source: Shinhan Securities Vietnam

PER của VPB



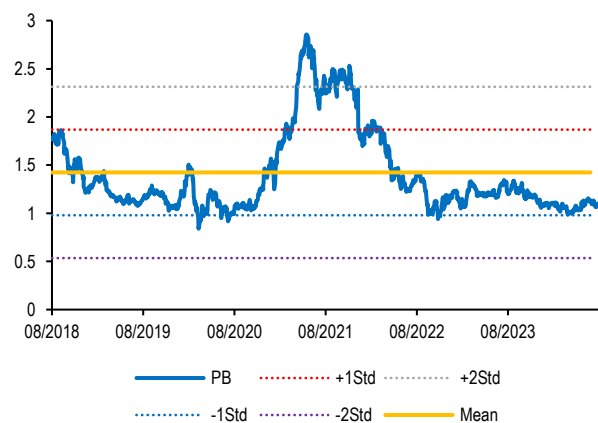
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER Band của VPB



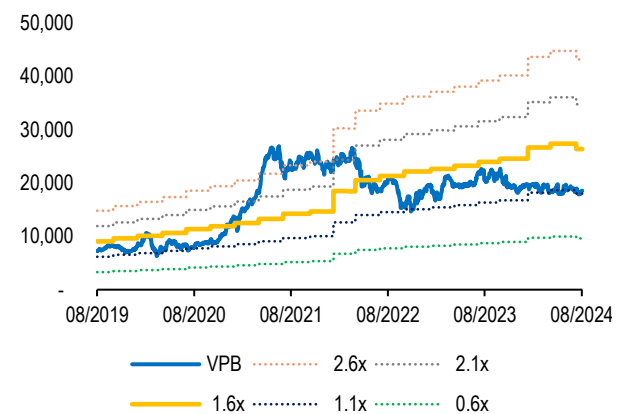
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR của VPB



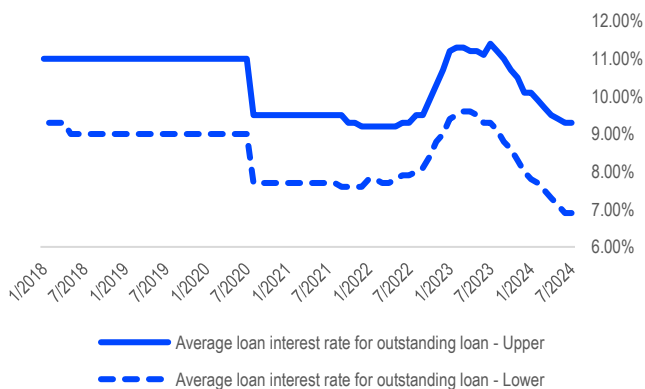
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR Band của VPB



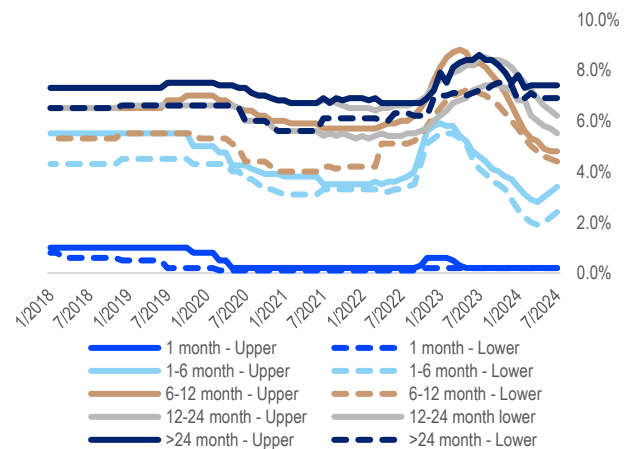
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Average lending interest rates in Vietnam



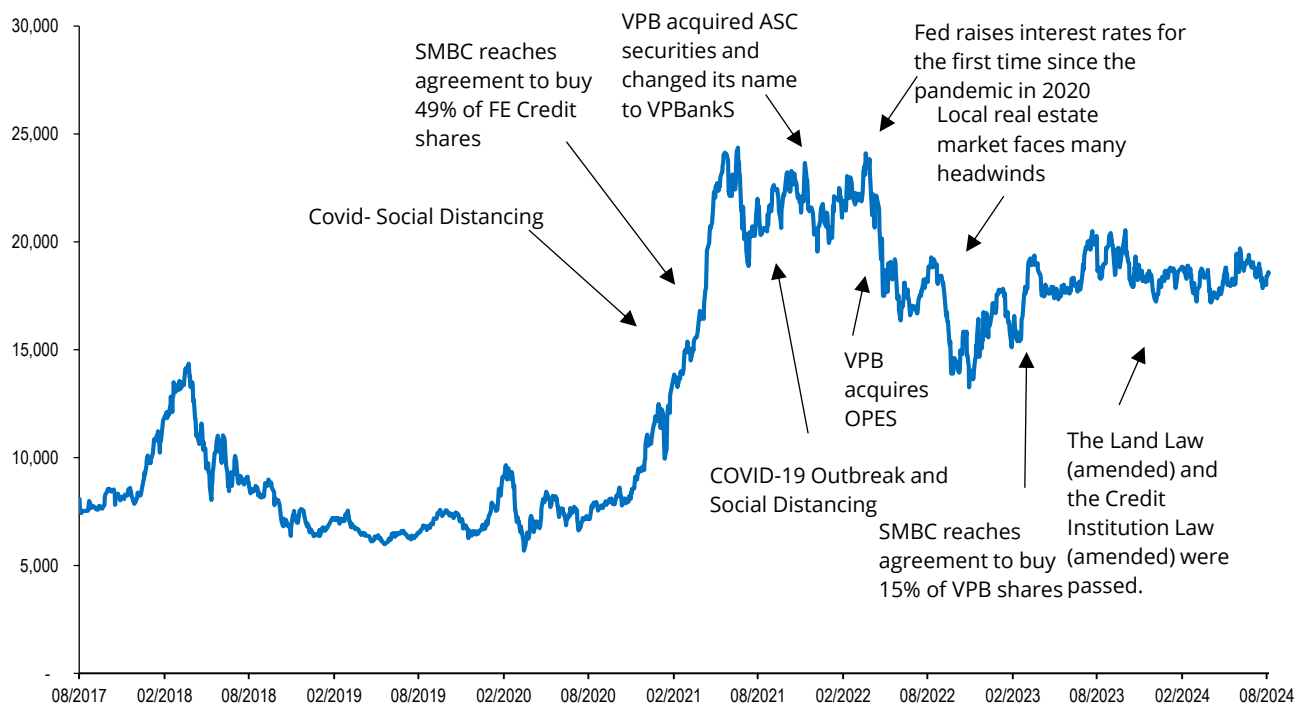
Source: SBV, Company data, Shinhan Securities Vietnam

Average deposit interest rate in Vietnam



Source: SBV, Company data, Shinhan Securities Vietnam

Important events of VPB



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

Recession/Economic Downturn Risk

VPBank's credit growth in 2024-2025 is lower than our forecast at >20% due to weak demand for loans from businesses and individuals. Faster-than-expected increase in deposit interest rates could negatively impact VPBank's NIM.

Risk of NPL increases

The slower-than-expected economic recovery and weakening asset quality have led to faster-than-expected increases in credit risk provisions. The slower-than-expected recovery in the real estate market has also made the process of asset recovery and liquidation more difficult.

FE Credit growth not as expected after restructuring

The consumer lending market has not recovered as we expected. With a significant contribution to VPBank's interest income, FE Credit's inability to grow and loss of market share could negatively impact VPB's business results.

Appendix: Financial statements

Balance sheet

Year (VND bn)	2021	2022	2023	2024F	2025F
Total assets	547,409	631,013	817,700	937,658	1,151,256
Cash and precious metals	2,346	2,658	2,285	2,544	3,180
Balances with the SBV	10,861	9,935	8,423	10,174	12,718
Placements with and loans to other credit institutions	57,105	47,965	94,094	72,335	92,706
Trading securities	6,971	7,793	12,326	16,048	20,886
Derivatives and other financial assets	103	-	-	-	-
Loans and advances to	345,390	424,662	551,622	673,972	843,977
Debts purchase	959	893	822	822	822
Investment securities	75,798	83,076	94,587	100,507	106,841
Long-term investments	250	189	189	189	189
Fixed assets	1,873	1,858	1,924	1,924	1,924
Investment properties	-	-	-	-	-
Other assets	45,754	51,981	51,428	59,142	68,014
Total liabilities	461,131	527,511	677,753	788,138	988,336
Due to Gov and Loans from	8,454	1,929	4,118	4,118	4,118
Deposits and Loans from other credit institutions	114,619	140,249	156,357	194,966	251,922
Deposits from customers	241,837	303,151	442,368	508,724	635,905
Other borrowed and entrusted fund	104	62	22	22	22
Convertible bonds/CDs and	81,296	63,700	47,787	47,787	57,345
Other liabilities	14,821	18,419	27,100	32,520	39,024
Shareholder's equity	86,278	103,502	139,947	149,520	162,921
Capital	43,374	66,551	103,332	103,332	103,332
Reserves	12,559	13,535	12,233	15,545	18,273
Retained earnings	22,439	16,752	19,149	25,136	34,852
Minority interest	7,906	6,664	5,232	5,506	6,463
Total liabilities and equity	547,409	631,013	817,700	937,658	1,151,256

Financial indicators

Year	2021	2022	2023	2024F	2025F
Growth (% YoY)					
Loans to customers	22.17	23.38	29.19	22.00	25.00
Deposits from customers	3.60	25.35	45.92	15.00	25.00
Shareholders' equity	63.43	19.96	35.21	6.84	8.96
Total assets	30.64	15.27	29.59	14.67	22.78
Net interest income	6.19	19.42	(6.94)	38.84	38.84
Net non-interest income	48.83	68.56	(31.04)	0.47	22.02
PPOP	21.49	30.07	(17.97)	37.65	40.72
Net profit before tax	10.33	47.73	(48.22)	55.59	39.99
Net profit after tax	10.21	47.33	(48.90)	58.27	39.99
Profitability (%)					
NIM	7.91	7.50	5.58	6.36	7.41
ROA	2.4	2.9	1.2	1.6	1.8
ROE	16.5	17.8	7.1	9.4	12.3
Liquidity (%)					
LDR Pure	146.91	144.59	128.01	135.80	135.80
Asset quality					
Leverage (x)	6.34	6.10	5.84	6.27	7.07
NPL ratio (%)	4.57	5.73	5.01	5.10	4.50
LLR ratio (%)	60.89	54.40	51.68	51.94	54.67
Reverse/total credit (%)	5.95	5.66	4.95	5.13	5.85
Credit costs/total credit (%)	5.45	5.26	4.68	34.93	37.54
Per share items (VND)					
EPS	2,547	2,507	1,089	1,724	2,413
BPS	19,149	15,349	17,639	18,846	20,535
PPOB/Share	7,453	6,478	4,516	6,216	8,748

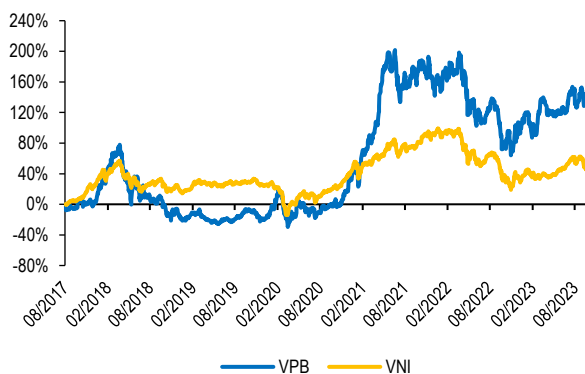
Source: Company data, Shinhan Securities Vietnam

Income statement

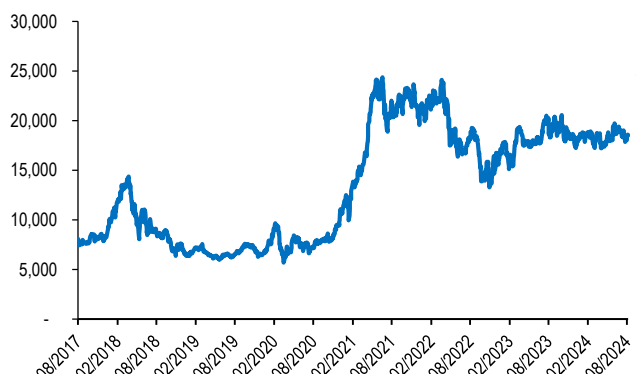
Year (bn)	2021	2022	2023	2024F	2025F
Interest and Similar Income	50,827	62,200	76,557	92,252	121,141
Interest and Similar Expenses	(16,478)	(21,179)	(38,383)	(39,252)	(47,557)
Net Interest Income	34,349	41,021	38,175	53,001	73,585
Net Fee and Commission Income	4,059	6,438	7,096	7,543	10,104
From foreign currency and gold	(76)	(618)	(806)	(629)	(777)
From trading of trading securities	9	(149)	380	-	-
From disposal of investment	3,151	509	250	195	207
Net other income	2,808	10,584	4,646	4,506	4,641
Dividends income	2	13	3	8	8
Total non-interest income	9,953	16,776	11,569	11,623	14,183
Total operating income	44,301	57,797	49,743	64,624	87,767
General and Admin expenses	(10,719)	(14,116)	(13,912)	(15,303)	(18,364)
Operating Profit Before Provision (PPOP)	33,583	43,681	35,832	49,321	69,404
Provision for credit losses	(19,219)	(22,461)	(24,844)	(32,226)	(45,474)
Profit before tax	14,364	21,220	10,987	17,095	23,930
Corporate income tax	(2,887)	(4,311)	(2,346)	(3,419)	(4,786)
Net profit after tax	11,477	16,909	8,641	13,676	19,144
Attributable to parent company	11,721	18,168	10,053	13,402	18,187

Vietnam Prosperity JSB (VPB)

Price performance



Target price (VND)



Date	Recommendation	Target price (VND)	Range of price (%)	
			Average	Max/Min
30/08/2024 (Initial report)	BUY	25,000	21.9	10/40

Note: Target price spread calculation based on last 12 months

Shinhan Securities Vietnam

Stock

- ♦ **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%

Industry

- ♦ **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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