

VIETCOMBANK (VCB)

Add (Maintained)

FINANCIALS

Current Price	VND94,900
52Wk High/Low	VND97,400/72,054
Target Price	VND118,700
Previous TP	VND99,900
TP vs Consensus	7.3%
Upside	25.1%
Dividend Yield	0%
Total stock return	25.6%

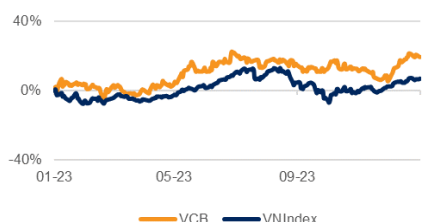
Growth rating	Positive
Value rating	Neutral
ST Technical Analysis	Buy

Market Cap	US\$21,017.7m
3m Avg daily value	US\$5.5m
Avail Foreign Room	US\$1,374.2m
Outstanding Shares	5,589.1m
Fully diluted O/S	5,589.1m

	<u>VCB</u>	<u>Peers</u>	<u>VNI</u>
P/E TTM	15.8	10.2	14.7
P/B Current	3.0	1.3	1.8
ROA	1.8%	1.5%	2.0%
ROE	21.7%	17.2%	12.1%

**as of 09/04/2024*

Share Price performance



Share price (%)	1M	3M	12M
Ordinary share	2.1%	14.9%	29.3%
Relative to index	2.4%	14.5%	23.2%

Ownership

State Bank of Vietnam	74.8%
Mizuho Corporate Bank	15.0%
GIC Private Limited	2.6%
Others	7.6%

Business Description

Vietcombank is engaged in commercial banking business for individual and corporate clients. It is also involved in international clearing, foreign exchange dealing and money transfer. The Bank has six subsidiaries and 13 affiliates. The State Bank of Vietnam is its controlling shareholder

Analyst(s):



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Retail lending could be a long-term growth driver

- We uphold our ADD rating with a 25.1% upside. We increase our target price by 15.4% since our last report as the share price rose by 9%.
- The main drivers of our change in target price are: 1) the change in cost of equity; and 2) a lower credit cost forecast.
- Current P/B of 3.0x slightly undervalues the company's ROE in FY24

Financial Highlights

- FY23 net profit (NP) increased by 10.4% yoy to VND33,033bn (~US\$1.33bn) due to a reversal in provision of VND6,949bn in 4Q23
- NPL ratio decreased by 23bps qoq (+30pbs yoy) to 0.98% by the end of FY23, LLR remains the highest in the sector at 230%
- We expect VCB's CAR to be 13.7% if the private placement can be finalized by the end of 2024. However, we don't yet reflect this in our TP

Investment Thesis

Successful private placement would help VCB improve its CAR

If VCB's private placement can be finalized by the end of FY24, we project the CAR will increase to 13.7% from 11.6%. VCB's CAR, like those of other state-owned banks, has been lower than the industry average. This is one reason state-owned banks had a narrower credit market share in recent years. This, in the long run, will weaken the leadership role of state-owned banks.

Additional capital would support VCB to expand retail and SME lending

We expect VCB credit growth to reach 12% in FY24, focusing on corporate lending. However, with the added capital, we expect VCB to expand its retail lending segment – as it did after completing its private placement in 2019 - targeting mortgage and SME lending with low lending rates in FY25-28.

Retail lending expansion can accelerate NIM expansion in FY25-28

We cut our FY24 NIM forecast by 8 bps to 3.1%, slightly higher than FY23 NIM (3.0%) due to a slower-than-expected decrease in COF. We expect lower deposit rates to come into effect stronger in 2024. However, we expect NIM to expand faster in FY25-28F as the bank promotes retail lending.

Solid net profit growth in FY24, strong growth prospects in FY25

We forecast credit costs to fall 4.21/2.0bps in FY24-25. Reduction in NPL formation supports VCB's plan to release their provision buffer in FY24. We forecast VCB's net profit to grow by 10.4% yoy in FY24, before surging 21.9% yoy in FY25. Consequently, ROE will end its decreasing trend in 2025.

Current P/B slightly undervalues the adjusted FY24 ROE forecast

The current P/B of 3.0x slightly undervalues the bank's ROE forecast of 19.5% in FY24. In the past five years, VCB often traded at a 160% premium to the sector's average P/B. However, given its cautious lending strategy and a contracted ROE in FY24, our target YE24 P/B is 3.1x, a 140% premium to the current sector average.

Financial summary (VND)	12-23A	12-24E	12-25E	12-26E
Net profit growth (yoy)	10.5%	10.4%	22.8%	21.4%
Credit growth (yoy)	10.9%	12.0%	14.0%	14.5%
NIM	3.0%	3.1%	3.3%	3.4%
CASA	33.9%	33.0%	33.0%	33.0%
NPLs / Gross loans	1.0%	0.8%	0.8%	0.7%
LLR	230.3%	233.6%	220.2%	203.0%
ROE	21.7%	19.5%	20.0%	20.4%
P/B	3.15	2.59	2.19	1.83

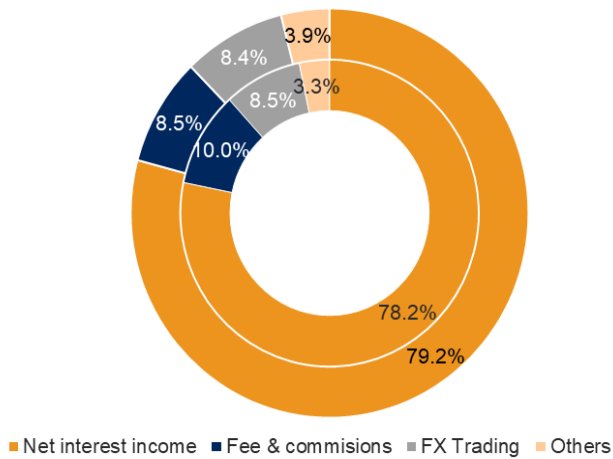
Source: VNDIRECT RESEARCH

Company Profile

Vietcombank, officially known as Joint Stock Commercial Bank for Foreign Trade of Vietnam, is a well-respected state-owned commercial bank (SOCB), recognized for its extensive network, robust financial services, and best-in-class asset quality. Established in 1963, Vietcombank has played a pivotal role in the development of Vietnam's banking sector, catering to the diverse needs of individuals, businesses, and institutions both domestically and internationally.

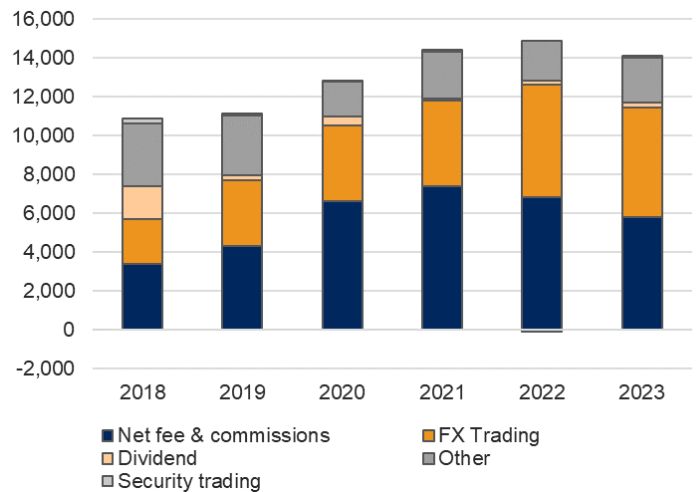
As a SOCB, VCB benefits from its strong relationships with large SOEs, which often generate strong cash flows and therefore allow the bank to maintain a low-risk lending portfolio. VCB was the first Vietnamese bank to build relationships with international banks. Thus, it holds a leading position in foreign trade, including trade financing, international settlements and FX transactions. This adds advantages to VCB in terms of cross-selling services to its customers, helping the bank to diversify its income sources.

Figure 1: VCB's income breakdown



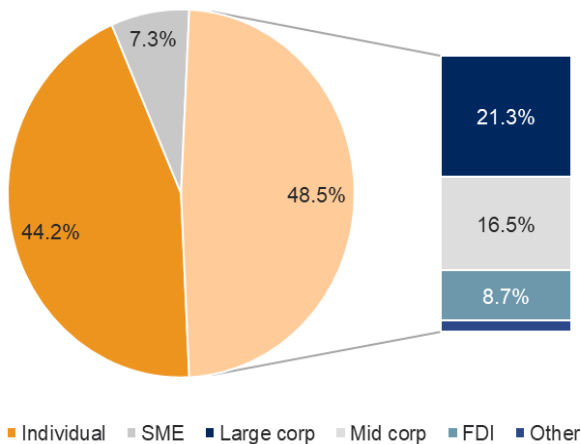
Inner circle: 2022, Outer circle: 2023
Sources: VCB, VNDIRECT RESEARCH

Figure 2: VCB's non-interest income by source



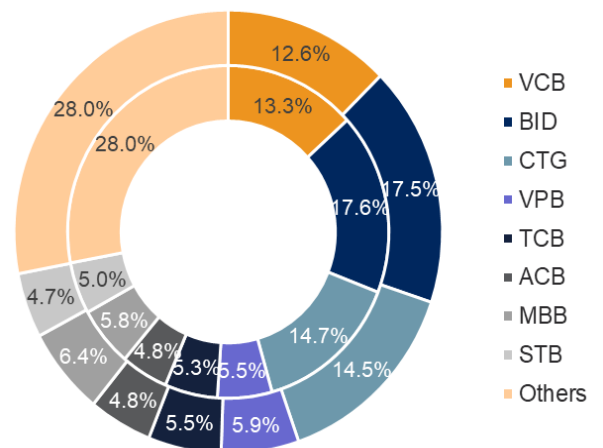
Sources: VCB, VNDIRECT RESEARCH

Figure 3: VCB's lending book breakdown by the end of 2023



Sources: VCB, VNDIRECT RESEARCH

Figure 4: VCB had the third highest credit market share among 25 listed banks by the end of 2023



Inner circle: 2022, Outer circle: 2023
Sources: VCB, VNDIRECT RESEARCH

Results Recap: Lower provision costs support earnings growth

Figure 5: Results comparison (VND bn unless otherwise noted)

Profit & Loss statement	4Q23	4Q22	% yoy	3Q23	% qoq	2023	2022	% yoy	FY23F VND old forecast	% of VND FY23F old forecasts	Comments
Net interest income	12,801	14,809	-13.6%	12,596	1.6%	53,621	53,246	0.7%	56,146	95.5%	Lower than our forecasts as NIM was under our estimates. In FY23, NIM only reached 3.01%, below our forecast of 3.1%
Non-interest income	3,158	3,853	-18.1%	3,181	-0.7%	14,103	14,836	-4.9%	16,638	84.8%	Significantly under our estimates due to lower-than-expected bancassurance fee. In 4Q23, VCB book ~VND800bn upfront fee, lower than our expectation of VND1.5tr. Besides, stagnant economic activity also slowdown loans recovery income. As of 2023, VCB's annualized recovery rate reached 0.17% - lower than our estimation of 0.2%.
Operating revenue	15,959	18,663	-14.5%	15,777	1.2%	67,723	68,083	-0.5%	72,783	93.0%	
Operation expenses	(5,752)	(4,565)	26.0%	(5,233)	9.9%	(21,915)	(21,260)	3.1%	(22,718)	96.5%	Below our forecast due to the underperformed TOI
Pre-provision profit	10,207	14,098	-27.6%	10,545	-3.2%	45,809	46,823	-2.2%	50,066	91.5%	
Provision expenses	1,487	(1,679)	-188.6%	(1,494)	-199.5%	(4,565)	(9,464)	-51.8%	(9,504)	48.0%	Lower than our forecast as the bank reverse provision in 4Q23. VCB decided to released its capital buffer while maintaining competitive NP growth. 2023 credit cost only reached 0.38% versus our base forecast of 0.8%
Pre-tax profit	11,693	12,419	-5.8%	9,051	29.2%	41,244	37,359	10.4%	40,562	101.7%	
Net profit	9,355	9,928	-5.8%	7,269	28.7%	33,033	29,892	10.5%	32,454	101.8%	Inline with our forecasts

Source: VCB, VNDIRECT RESEARCH

Figure 6: VCB's key ratios by quarters

Key ratios	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Net interest income/Total operating income (TOI)	81.7%	79.4%	76.7%	80.3%	79.8%	80.2%
Non-interest income/TOI	18.3%	20.6%	23.3%	19.7%	20.2%	19.8%
NIM (annualized)	3.41%	3.51%	3.18%	3.20%	2.96%	2.90%
Cost-to-income ratio (CIR)	38.1%	24.5%	28.5%	32.4%	33.2%	36.0%
Loan-to-deposit ratio (Circular 36)	82.6%	77.3%	74.6%	79.6%	79.3%	79.4%
Non-performing loan ratio	0.8%	0.7%	0.8%	0.8%	1.2%	1.0%
Loan-loss-reserves (LLR)	401.8%	317.4%	320.8%	385.8%	270.1%	230.3%
Credit cost (annualised)	0.98%	0.88%	0.70%	0.78%	0.69%	0.28%
ROAA (trailing 12m)	1.8%	1.9%	1.8%	1.9%	1.9%	1.8%
ROAE (trailing 12m)	22.4%	24.2%	23.8%	23.6%	23.3%	21.7%

Source: VCB, VNDIRECT RESEARCH

TOI declined in 4Q23 due to a contraction in NIM and lower fee income

4Q23 TOI fell 14.5% yoy to VND15,959bn (US\$653.5m) due to a decrease in both net interest income and non-interest income. FY23 TOI reached VND67,723bn (US\$2.8bn), edging down by 0.5% yoy. While credit growth sped up in the last quarter to push the credit balance of the year up 10.6% yoy, net interest income fell 13.6% yoy in 4Q23 due to a contraction in NIM. 4Q23 NIM reduced to 2.9% as VCB continued to lower lending yields to support its customers. FY23 NIM slid 39bps yoy to 3.01% due to higher cost of funds.

We see a significant reduction in VCB's non-interest income in 4Q23, which we believe came from sluggish bancassurance activities. In 4Q23, VCB only recorded about VND800bn (US\$32.3m) of upfront fees, lower than our expectation of ~VND1,500bn (US\$60.6m).

Provision cost management supported the bottom line

CIR spiked 11.6% pts yoy to 36% in 4Q23 due to the reduction in TOI and higher salary expenses. FY23 CIR was at 32.4%, nearly equal to last year and close to our forecast of 31.2%.

We estimate that in 4Q23, VCB recorded a reversal in provision of about VND6,949bn (US\$280.4m), causing accumulated provision expenses for FY23 to fall 51.8% yoy. This resulted both from the write-off rate increasing to 1.35% vs 0.06% in 3Q23 and asset quality improvement. The NPL formation rate dropped to 2.5% vs 23.7% in 3Q23. Accumulated for 2023, net profit rose 10.5% yoy to VND33,033bn (~US\$1.4bn).

Asset quality improved as the NPL ratio edged down qoq

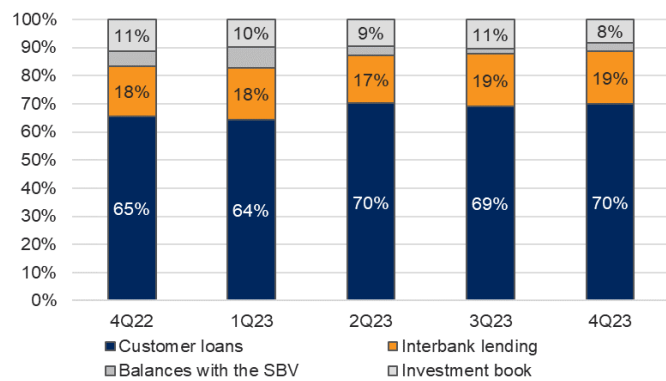
By the end of 2023, the NPL ratio was at 1.0%, falling by 23bps qoq, but was still much higher than the NPL rate in 2022. The SML also fell 21bps qoq to 0.44% in 4Q23, signaling a downward trend in the NPL ratio.

VCB used its provision buffer to push write-off activities. 4Q23 write-offs were VND4,152bn (US\$170m), 28% higher than 4Q22. By the end of 2023, the LLR fell to 230% from 317% in 2022, but was still the highest in the banking sector.

Figure 6: VCB's key balance sheet KPIs analysis

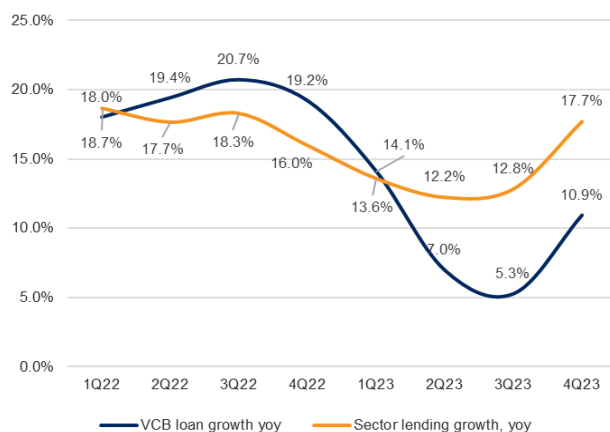
Earning asset (IEA) mix: Customer loans accounted for the largest portion, while the investment book continued to narrow

- In 4Q23, VCB's earnings asset grew at a much higher pace of 5.3% qoq (vs +2.5% qoq in 3Q23), driven mostly by growth of customer loans (+6.8% qoq, +10.9% yoy)
- VCB is still a leader in the interbank lending market with a ~17% market share at the end of 2023. The interbank lending book expanded by 4.6% qoq (+7% yoy).
- Meanwhile, the investment book slumped by 18% qoq (-25.0% yoy), as both government bonds and credit institution bonds plummeted by 18.5%/35.1% yoy.



Loan mix vs. growth: Accelerated in 4Q23, driven by robust FDI lending growth

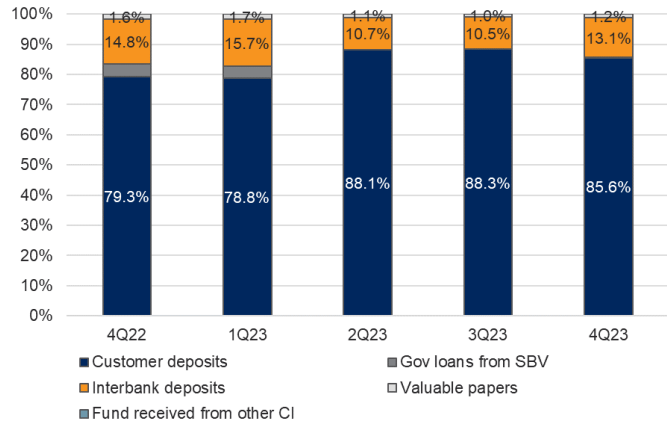
- VCB loan book rose 10.9% yoy by the end of FY23, and was significantly higher compared to the previous quarter, yet still lower than the average sector growth pace of 17.7%. Lending to corporates grew by 18.6% yoy, and accounted for 48.5% of the total loan book. Corporate lending growth was driven by robust growth from FDI (+28% ytd).
- Reasons for loan demand picking up at end of the year include:
 - (1) Corporate lending was driven by robust FDI inflow by the end of 2023, as Vietnam's FDI inflow grew by 32.1% yoy. VCB took a 43.2% market share of FDI lending by end-2022, highest among SOCBs.



- (2) Individual lending was driven by household business lending (+14% yoy) thanks to the rise in seasonal demand during the year-end holiday.

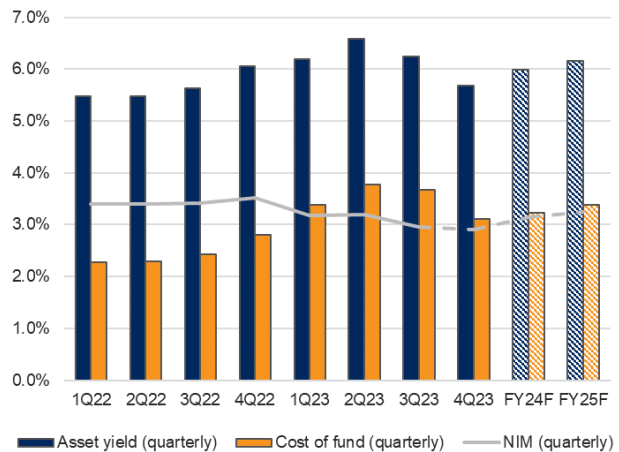
Funding mix: Shift to interbank deposit

- By the end of 4Q23, VCB total funding rose by 4.0% yoy, driven by the increase in interbank and customer deposit
- Although the deposit rate has decreased by 2.7% pts yoy, customer deposits increased by 3.5% qoq (+12.2% yoy) in 4Q23
- VCB shifted to funding through interbank in 4Q23, as the interbank deposit jumped by 33.5% qoq (-8% yoy)
- CASA ratio continued to improve and reached 33.9% at end-2023 (+0.8% pts yoy) (ranked at 3/25 listed banks in terms of total assets), as people shifted from term deposit to demand deposit



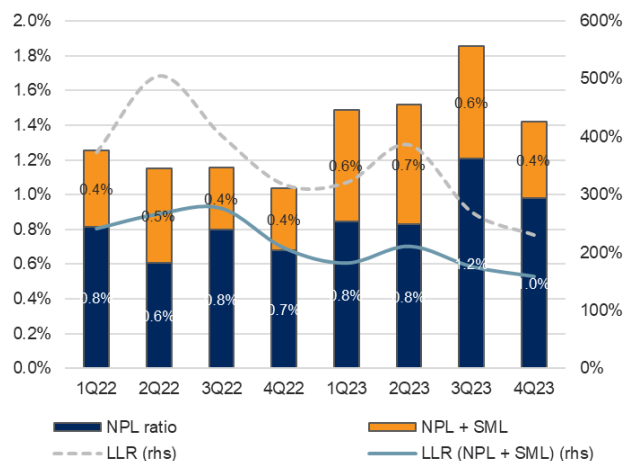
NIM performance: slower-than-expected recovery

- VCB's annualized NIM went flat qoq (-37bps yoy) to 3.05% at end-2023, lower than the peer average of 3.4% as the bank reduced lending yield to support customers
- Its annualized asset yield increased by 48bps yoy to 6.15%. Although lending yield decreased by 73bps qoq, it remained at a high rate of 7.76% (+74bps yoy)
- Annualized COF stayed flat by the end of 2023, and was still 101bps higher than the 2022 rate. A good sign is that COF has edged down qoq thanks to (1) recovery in CASA and (2) a dive in term deposit rates as high-interest rate deposits in 4Q22-1Q23 have been rolled to lower interest rates.



Asset quality: Still best-in-class with NPL ratio reduced

- We estimate the NPL ratio by the end of 2023 was 0.98% (-23bps qoq and +30 bps yoy), the lowest among the top 25 banks. The ratio of group 2 loans to total loans was 0.44% (-0.21bps qoq and +0.8bps yoy). It shows that the pace of bad debt formation has slowed.
- By the end of 2023, LLR reduced by 87% pts yoy to 230% as the bank released its provision buffer to write off bad debt. Nevertheless, VCB's LLR was still at the highest rate among peers.



Source: VCB, VNDIRECT RESEARCH

FY24-25F outlook: Increasing capital successfully is a decisive factor for growth prospects

Figure 7: Earnings revision (VNDbn, unless otherwise noted)

Profit & Loss statement	Old forecasts			New forecasts			Change			Comments
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	
Net Interest Income	61,863	68,908	76,877	59,611	70,924	83,381	-3.6%	2.9%	8.5%	Lower NII results as we reduce investment yield in FY24F amid lower interest rate environment. However, we increase NIM in FY25-26F to reflect's our expectation on the expansion of retail lending book
Non-Interest Income	20,239	22,039	24,201	15,719	18,270	21,386	-22.3%	-17.1%	-11.6%	We reduce our projection for annualized recoveries rate to reflect a slower-than-expected recovery in economy. We also reduce the fee incomes amid sluggish bancassurance activities
Operating revenue	82,101	90,947	101,078	75,331	89,195	104,767	-8.2%	-1.9%	3.6%	
Operating expenses	(25,380)	(27,841)	(30,639)	(24,151)	(27,257)	(30,968)	-4.8%	-2.1%	1.1%	
Pre-provision profit	56,722	63,105	70,438	51,180	61,937	73,798	-9.8%	-1.9%	4.8%	
Provision expenses	(9,786)	(10,278)	(11,614)	(5,656)	(6,090)	(6,074)	-42.2%	-40.8%	-47.7%	Lower our projection for credit cost by 0.33/0.35% pts to 0.42/0.4% to reflect (1) lower-than-expected bad debt formation, and (2) higher-than-expected provision buffer release from VCB, as the LLR by the end of FY23 was 230%, lower than our expectation of 300%
Pre-tax profit	46,935	52,827	58,824	45,525	55,848	67,724	-3.0%	5.7%	15.1%	
Net profit	37,554	42,268	47,066	36,462	44,730	54,242	-2.9%	5.8%	15.2%	
No. of shares outstanding (m)	5,589	5,589	5,589	5,589	5,589	5,589	0.0%	0.0%	0.0%	
EPS (VND/share)	6,715	7,558	8,416	6,520	7,998	9,699	-2.9%	5.8%	15.2%	

Source: VCB, VNDIRECT RESEARCH

We revise our FY24-25F earnings forecast for VCB

Given the bank's prominent lending strategy and their priority of asset quality over expansion in FY24F, we reduce FY24F EPS forecast by 2.9%. We forecast that as the economy fully recovers in FY25-26F, the bank can promote retail lending, which will result in higher NIM. Our change in EPS projection comes from the following factors:

- We maintain our credit growth forecast in FY24-25F, but increase credit growth forecast in FY26F by 1.5% to 14.5%
- We maintain our NIM forecast in FY24F, but lift the forecast in FY25F and FY26F by 80bps/220bps, respectively
- We reduce fee income on expectation of: 1) slower-than-expected recovery in the bancassurance segment; and 2) lower-than-expected income from bad debt recoveries
- We reduce the forecast for credit costs from 0.75% to 0.42% in FY24F and from 0.75% to 0.40% in FY25F

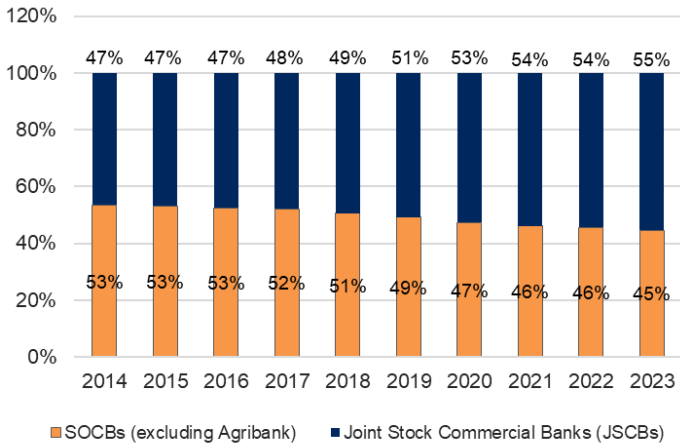
Potential growth is driven by private placement deal

Success in stake selling will help VCB improve its CAR

As of the end of 2023, around 44.7% of the credit balance of the banking sector is financed by state-owned banks, with VCB having approximately 12.6% market share. However, the market share of State-Owned Commercial Banks (SOCBs) has been contracting over the past 10 years. One of the reasons for this is the

difficulty in increasing capital for SOCBs. Over the past decade, the charter capital of Joint-Stock Commercial Banks (JSCBs) has increased with a CAGR of 14.0%, while that of State-Owned Commercial Banks was only 6.1%. In the long run, this will pose challenges for state-owned banks in their role in guiding the credit market.

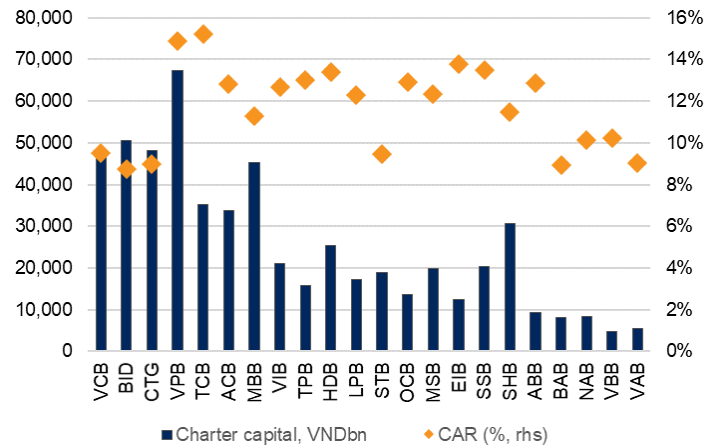
Figure 8: Credit market share of SOCBs and JSCBs



*data collected from 25 largest listed banks

Sources: Commercial banks, VNDIRECT RESEARCH

Figure 9: Charter capital and CAR of SOCBs and JSCBs at end-FY22



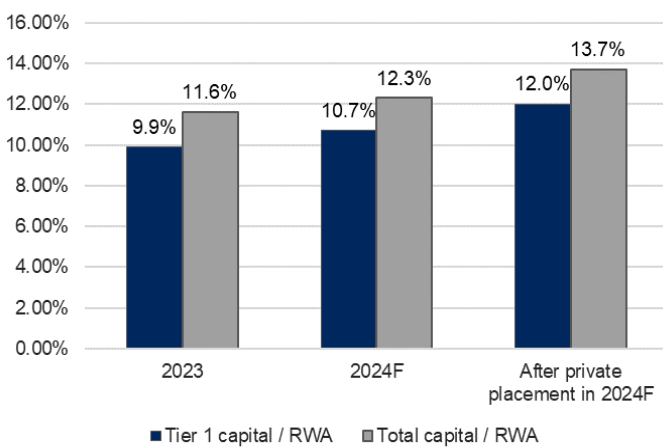
*data collected from 25 largest listed banks

Sources: Commercial banks, VNDIRECT RESEARCH

As of end-FY23, VCB's CAR stands at 11.59%, and while this is higher than other state-owned banks, it is still lower than the industry average. In the long term, this will pose a challenge for VCB in solidifying its position as the top bank in terms of asset quality.

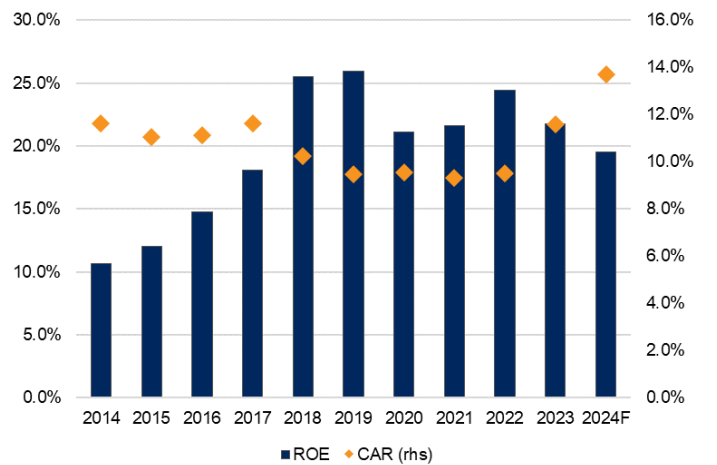
According to Bloomberg, the private placement deal is expected to bring VND24,450bn (US\$1bn) for VCB. We assume that Risk-weighted Assets (RWA) will increase by 13.1% by the end of FY24 (equal to FY19-23 CAGR). With this amount added to tier 1 capital, we estimate that after the private placement, VCB's CAR will increase to 13.7%.

Figure 10: Our estimate of VCB's CAR after the private placement



Sources: VCB, VNDIRECT RESEARCH

Figure 11: CAR and ROE of VCB in FY14-23 and FY24F

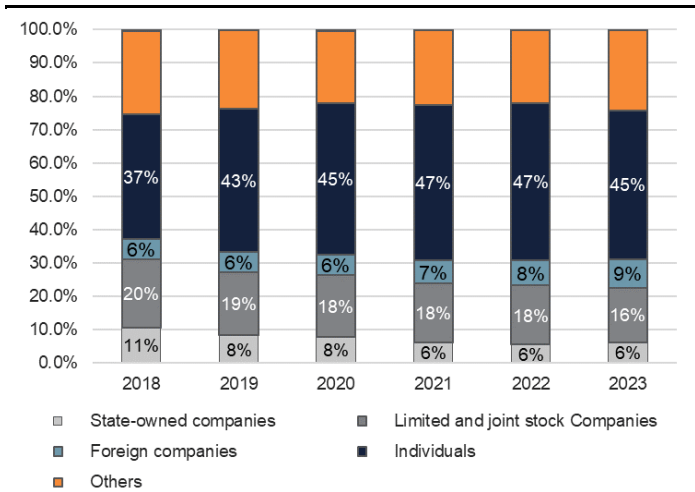


Sources: VCB, VNDIRECT RESEARCH

With the additional capital, VCB can expand its retail lending segment from FY25F forward

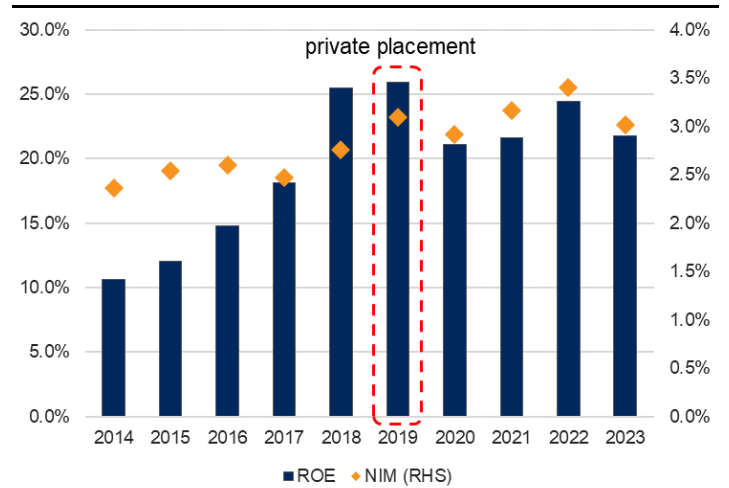
Increasing capital will also help VCB enhance the efficiency of its banking operations. In 2019, when VCB successfully issued a VND6,200bn (US\$250.4m) private placement to GIC and Mizuho, VCB deployed the capital to expand its retail lending market share, which rose from 9.1% in FY18 to 10.8% in FY22. As a result, its average NIM and ROE rose from 2.5%/16.2% in FY14-18 to 3.1%/23.0% during FY19-23.

Figure 12: Retail lending proportion in VCB's total loan book has been expanding since FY19...



Sources: VCB, VNDIRECT RESEARCH

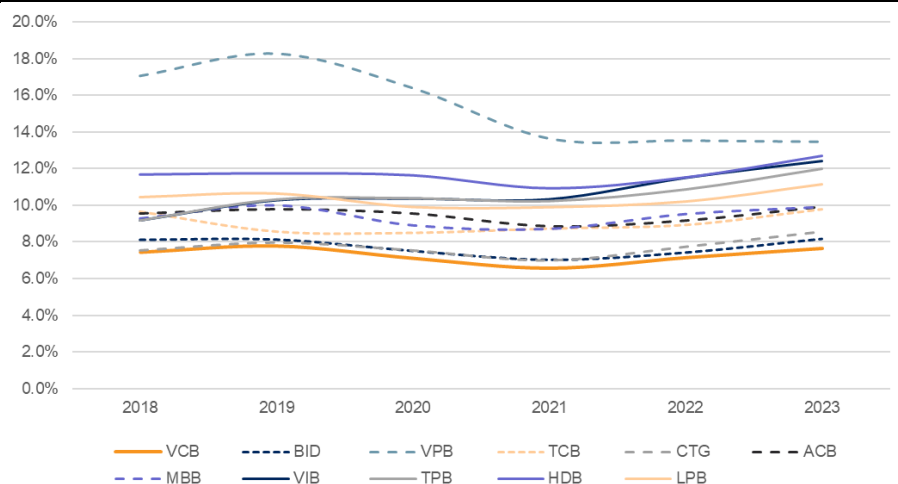
Figure 13:which has led to an increase in NIM and ROE



Sources: VCB, VNDIRECT RESEARCH

Unlike in 2019 when the deal was finalized in January, we expect VCB to complete this deal in late 2024. Thus, the effect will be seen more clearly in 2025. With a one-year outlook, VCB managers prioritize lending to corporate customers as they want to maintain solid loan book growth while the Vietnamese economy is still in the early stage of recovery. However, over 2025-28, we believe that VCB will offer competitive lending rates to snatch retail lending market share. To compensate, the bank will cross-sell other services like bancassurance and settlement. Currently, VCB offers several low lending rate policies for customers, targeting mortgages and business lending for SMEs.

Figure 14: VCB's average lending yield is lower compared to peers



Source: Commercial banks, VNDIRECT RESEARCH

We project the ROE of VCB to reduce slightly to 19.5% in FY24 following a prudent lending strategy. In FY25-26, we forecast ROE to rise gradually around 20% thanks to: 1) VCB promoting retail lending; and 2) lower credit cost as NPLs reduce. Moving to FY27-28, we project ROE will reduce to around 19% due to an increase in credit cost to improve LLR to about 200%.

NIM will be supported thanks to lower deposit costs in FY24

We believe that VCB will continue to implement a lower lending yield policy to support customers in FY24F. This will be partially offset by a decrease in cost of funds in FY24F as the average interest rate on deposits has decreased by 2.7% pts since the beginning of 2023. By our observation, the term deposit cost often has a lag of six months to the deposit rates at the counter. Thus, we forecast that the bank's NIM in 2024 will be improved to 3.1%.

From FY25-28F, we project NIM to reach 3.3%/3.4%/3.5%/3.6%, respectively, as the bank focuses more on expanding its retail lending segment.

Lower provision expense as bad debt formation is slowing down

We project that the credit cost will decline by 4.2/2.0/5.0 bps yoy to 0.42%/0.4%/0.35% in FY24-25-26F as bad debt formation is trending downward and VCB will release more capital buffer to write-off bad debts. Moving to FY27-28F, we forecast credit cost will be 0.5%, as we believe VCB will build up its LLR to around 200%.

Maintaining its leading position in terms of asset quality

We believe that in FY24-25F, VCB's NPL ratio will decrease slightly by 0.15%/0.19% pts to 0.83%/0.61%, respectively, thanks to: 1) an increase in corporate customers' income; and 2) lower interest expenses as lending yields reduce. VCB will continue to release its capital buffer to write off bad debts in FY24-25-26F while maintaining a high level of LLR around 220%-230%.

Valuation: Reiterate Add with higher target price of VND118,700

We decrease the equity risk premium from 9.6% to 9.0%, following the update of adjustments from [NYU Stern](#) in January 2024. We also update the risk-free rate following the 10-year government bond yield. We combine P/B valuation and residual income approach with an equal weight of 50% to deliver a target price of VND118,700 for VCB.

Our target P/B was 3.1x, a 140.3% premium to current sector P/B of 1.29x. Over the past five years, the average spread between the P/B ratio of the industry and VCB has been 160%. Our cautious valuation is due to a reduction in FY24F ROE forecast compared with previous forecast, as we reduce the fee income forecast.

Our target price increase was mainly driven by: 1) lower cost of equity assumption; and 2) lower credit cost forecast in FY24F.

A potential upside catalyst to our target price is a lower-than-expected credit cost. Downside risk comes from: 1) higher NPL than expected; and 2) lower-than-expected credit growth.

Figure 15: Residual income valuation, based on our estimates

General assumptions	2024F	2025F	2026F	2027F	2028F	Terminal
Risk free rate (10-year VGB yield)	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Equity risk premium	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Beta (1 yr)	0.8	0.8	0.8	0.8	0.8	0.8
Cost of equity	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
Long-term growth rate						3.0%
Long-run COE						9.44%
% ROE	19.5%	20.0%	20.4%	19.2%	18.9%	19.6%

Residual Income Model (in VND bn)						
RI	20,560	25,430	31,439	33,580	38,734	645,830
Discount factor	0.91	0.83	0.76	0.70	0.64	0.64
PV of RI	18,787	21,232	23,985	23,409	24,672	411,375
<i>(in VND bn, otherwise noted)</i>						
Opening shareholders' equity	168,449					
PV of residual income (5 years)	112,085					
PV of terminal value	411,375					
Implied Equity value	691,909					
No. of o/s shares (m shares)	5,589					
Implied value per share (VND/share)	123,796					

Source: VNDIRECT RESEARCH

Figure 16: Target price calculation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	123,776	61,888
P/BV multiple (at 3.1x FY24F BVPS)	50%	113,642	56,821
Target price (VND/share)			118,709
Target price (VND/share, rounded)			118,700

Source: VNDIRECT RESEARCH

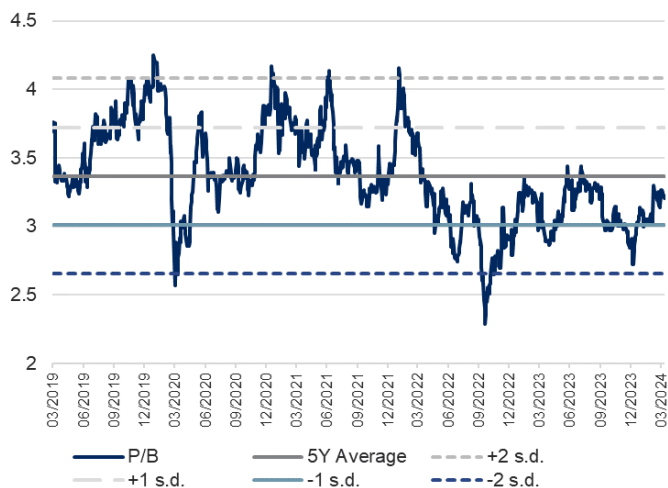
We run a sensitivity analysis on how the capital increase after the private placement will affect our target price. We assume that in the base case, the deal size is VND24,450bn (US\$1bn); and in the best case, the size is VND29,472bn (~US\$1.2bn).

Figure 17: Target price calculation

	Current Values	Normal case	Best case
Selling price	0	80,000	96,000
Number of stake sell	307	307	307
Target price	118,700	127,100	128,800

Source: VNDIRECT RESEARCH

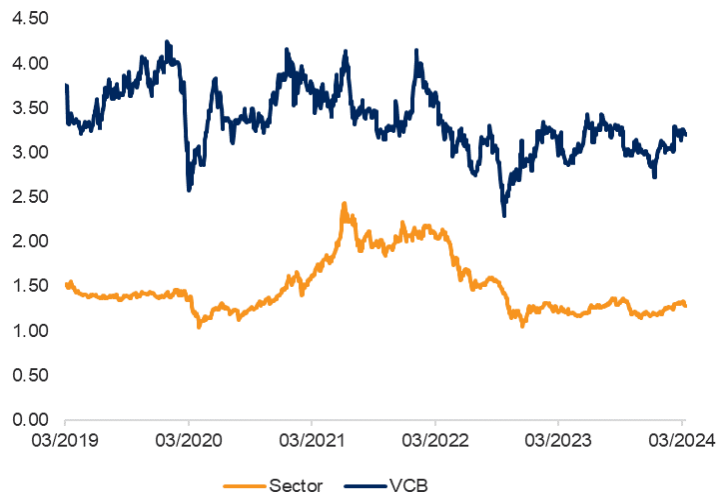
Figure 18: VCB price to book ratio compared to historical data



Data as of 09/04/2024

Sources: Bloomberg, VNDIRECT RESEARCH

Figure 19: VCB price to book ratio compared to sector average



Data as of 09/04/2024

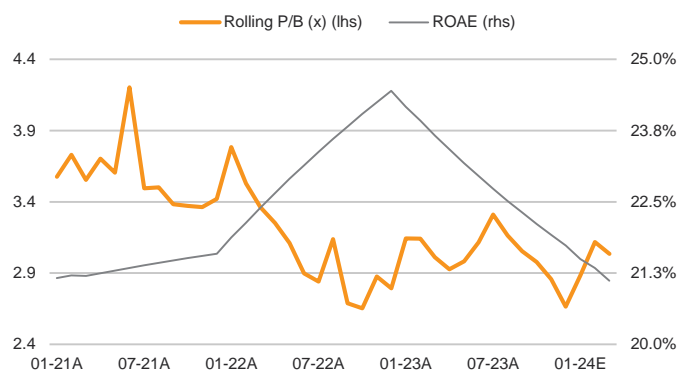
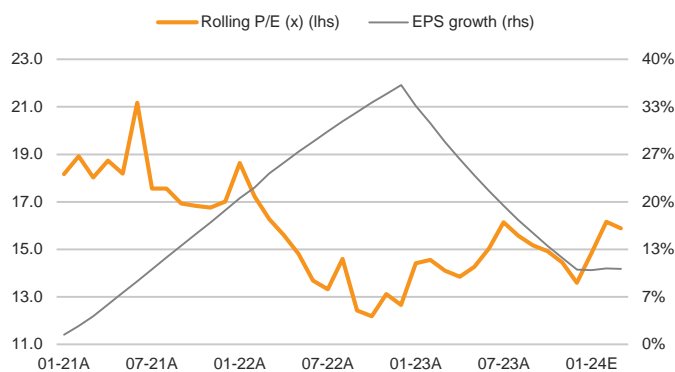
Sources: Bloomberg, VNDIRECT RESEARCH

Figure 20: Vietnam bank comparison (price as of 09/04/2023)

Banks	Bloomberg Code	Market cap (US\$bn)	NIM (%)		NPL (%)		P/B (x)		P/E (x)		3-yr Forward EPS CAGR (%)	ROA (%)		ROE (%)	
			FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F		FY24F	FY25F	FY24F	FY25F
VietinBank	CTG VN	7.5	2.9%	2.9%	1.4%	1.2%	1.2	1.0	9.0	8.3	21.1%	1.3%	1.3%	19.7%	18.0%
Vietnam Prosperity JSC Bank	VPB VN	6.1	5.8%	5.8%	4.2%	3.3%	0.9	0.8	7.9	6.2	20.5%	2.2%	2.4%	13.3%	15.4%
Techcombank	TCB VN	6.7	4.1%	4.3%	0.9%	0.7%	1.1	0.9	7.4	6.1	24.9%	2.5%	2.6%	16.0%	16.6%
Military Commercial Joint Stock Bank	MBB VN	5.2	4.8%	4.7%	1.4%	1.2%	1.1	1.0	6.0	5.4	12.0%	2.3%	2.2%	22.6%	20.7%
Asia Commercial Joint Stock Bank	ACB VN	4.4	4.0%	4.3%	0.9%	0.9%	1.1	0.9	5.4	4.6	10.1%	2.4%	2.4%	22.5%	20.9%
HD Bank	HDB VN	2.7	5.1%	5.1%	1.6%	1.2%	1.2	0.9	5.2	4.4	17.3%	2.1%	2.1%	26.2%	24.5%
Vietnam International Bank	VIB VN	2.4	4.4%	4.6%	3.0%	2.5%	1.3	1.0	6.1	4.4	22.3%	2.3%	2.7%	23.4%	25.0%
Tien Phong Commercial JSB	TPB VN	1.6	4.1%	4.2%	1.8%	1.4%	1.0	0.9	6.1	5.7	6.3%	1.8%	1.7%	18.7%	16.9%
LPBank	LPB VN	1.8	3.6%	3.7%	2.7%	2.3%	1.1	0.9	6.4	5.8	10.4%	1.4%	1.4%	17.7%	16.5%
Average			4.3%	4.4%	2.0%	1.6%	1.1	0.9	6.6	5.7	16.1%	2.0%	2.1%	20.0%	19.4%
Vietcombank	VCB VN	21.1	3.1%	3.3%	0.8%	0.8%	2.6	2.2	14.5	11.8	18.1%	1.9%	2.0%	19.5%	20.0%

Source: Bloomberg, VNDIRECT RESEARCH

Valuation



Income statement

(VNDbn)	12-23A	12-24E	12-25E
Net interest income	53,621	59,611	70,999
Non interest income	14,103	15,579	18,130
Total operating income	67,723	75,191	89,129
Total operating costs	(21,915)	(24,151)	(27,280)
Pre-provision operating profit	45,809	51,040	61,849
Total provision charges	(4,565)	(5,656)	(6,090)
Income from associates & JVs			
Net other income			
Pre-tax profit	41,244	45,385	55,760
Tax expense	(8,189)	(9,039)	(11,099)
Profit after tax	33,054	36,345	44,660
Minority interest	(21)	(23)	(29)
Net profit	33,033	36,322	44,631

Balance sheet

(VNDbn)	12-23A	12-24E	12-25E
Gross loans to customers	1,270,359	1,422,802	1,621,994
Loans to banks	335,616	359,110	384,247
Total gross loans	1,605,975	1,781,912	2,006,242
Securities - total	148,388	192,904	212,194
Other interest earning assets	58,105	63,915	67,111
Total gross IEAs	1,812,468	2,038,731	2,285,547
Total provisions	(28,796)	(27,755)	(27,465)
Net loans to customers	1,241,675	1,395,196	1,594,692
Total net IEAs	1,783,672	2,010,976	2,258,082
Cash and deposits	14,505	16,353	18,363
Total investments	2,225	2,508	2,817
Other assets	38,822	43,769	49,147
Total non-IEAs	55,552	62,631	70,327
Total assets	1,839,223	2,073,607	2,328,408
Customer deposits	1,395,695	1,535,264	1,719,496
Cds outstanding	19,913	15,930	16,727
Customer interest-bearing liabilities	1,415,607	1,551,194	1,736,222
Bank deposits	215,513	151,444	181,469
Broad deposits	1,631,120	1,702,638	1,917,692
Other interest-bearing liabilities	118	124	130
Total IBLs	1,631,238	1,702,762	1,917,822
Deferred tax liability			
Other non-interest bearing liabilities	39,442	165,861	167,564
Total non-IBLs	39,442	165,861	167,564
Total liabilities	1,670,680	1,868,623	2,085,386
Share capital	55,891	55,891	55,891
Additional paid-in capital	5,805	5,805	5,805
Treasury shares			
Retained earnings reserve	85,174	121,615	159,653
Other reserves	21,579	21,579	21,579
Shareholders' equity	168,449	204,890	242,928
Minority interest	94	94	94
Total equity	168,543	204,984	243,022
Total liabilities & equity	1,839,223	2,073,607	2,328,408

	12-23A	12-24E	12-25E
Growth rate (yoy)			
Cust deposit growth	12.2%	10.0%	12.0%
Gross cust loan growth	10.9%	12.0%	14.0%
Net interest income growth	0.7%	11.2%	19.1%
Pre provision operating profit growth	(2.2%)	11.4%	21.2%
Net profit growth	10.5%	10.0%	22.9%
Growth in IEAs	3.4%	12.7%	12.3%
Share value			
Basic EPS (VND)	5,910	6,499	7,985
BVPS (VND)	30,139	36,659	43,465
DPS (VND)	0	0	1,200
EPS growth	10.5%	10.0%	22.9%

Key ratios

	12-23A	12-24E	12-25E
Net interest margin	3.0%	3.1%	3.3%
Cost-income ratio	(32.4%)	(32.1%)	(30.6%)
Reported NPLs / gross cust loans	1.0%	0.8%	0.8%
Reported NPLs / net cust loans	1.0%	0.8%	0.8%
GP charge / average cust loans	0.4%	0.4%	0.4%
Total CAR	0.0%	0.0%	0.0%
Loan deposit ratio	89.7%	91.7%	93.4%
Margins and spreads			
Return on IEAs	6.1%	5.9%	6.0%
Cost of funds	3.4%	3.2%	3.3%
Interest return on average assets	2.9%	3.0%	3.2%
ROAE	21.7%	19.5%	19.9%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Growth Ratings Definition:

Positive	We forecast the company to have stronger earnings growth than peers over the investment horizon.
Neutral	We forecast the company's earnings growth to be in line with peers over the investment horizon.
Negative	We forecast the company to have weaker earnings growth than peers over the investment horizon.

Value Ratings Definition:

Positive	The current share price is lower than peers on the basis of historical P/E, P/B or another ratio specified.
Neutral	The current share price is in-line with peers on the basis of historical P/E, P/B or another ratio specified.
Negative	The current share price is higher than peers on the basis of historical P/E, P/B or another ratio specified.

Sector Ratings Definition:

Overweight	Stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	Stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	Stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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