

VIETNAM PROSPERITY COMMERCIAL JOINT STOCK BANK (VPB)

EXPECTED TO RECOVER FROM 2H2021

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VPB

Sector: Banking

Report date: 29/04/2021

Recommendation: HOLD

Current price: VND 58,500

Target price: VND 53,000

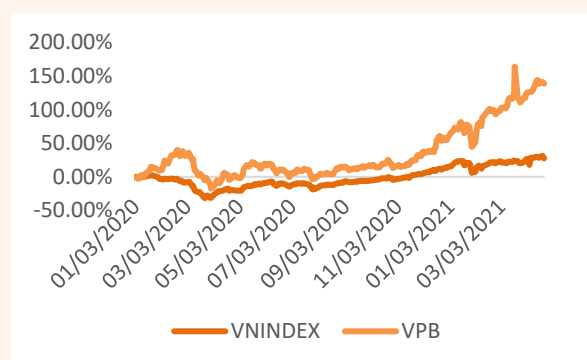
Tổng quan

VPB is a Vietnamese private bank which has listed in Ho Chi Minh City Stock Exchange since 2017. VPB is focusing on retail banking and accelerating digitalization to expand its market share. The bank owns 100% shares of FE Credit, a consumer finance company which accounts for about 50% of the market share of consumer installment loans for motorbike and telephone, unsecured loans, etc. in Vietnam. Currently, VPB accounted for 3% total credit of the banking system.

Key figures

Market cap (VND bil)	125,142
Outstanding share (mil)	2,458
Average 1M volume (mil share)	8.096
Foreign ownership	22.77%
State ownership	0%

Stock performance



Change in share price

	YTD	3M	1Y
Absolute (%)	22.7%	11.6%	139.6%
Relative to benchmark (%)	34.2%	18.6%	202.0%
Average share price	32,264	39,064	26,730

Income statement (VND bil)	Q12020	Q12021
Net interest income	8,021	9,120
Non-interest income	1,884	1,931
TOI	9,905	11,051
Operating expenses	3,282	2,592
Provision expenses	3,711	4,453
PBT	2,313	3,201

Balance sheet (VND Bil)	2020A	Q12021
Consolidated credit	318,494	332,032
Lending to customers	290,816	301,172
Deposits from customers	233,428	233,427
Financial ratio		
ROA	2.62%	3.0%
ROE	21.92%	23.5%
NIM	8.72%	9.09%
CIR	29.19%	23.5%
NPL (Cir02)	2.90%	3.01%

Business results Q1/2021

- In Q1/2021, VPB continued to maintain earnings growth compared to Q12020 with PBT+37.6% mainly due to operating costs reduction. This is also a relatively low growth rate compared to the overall sector in the first quarter.
- On the earnings side, FE Credit has not recovered (ENR), causing bank's total credit to grow just over 2%ytd while earnings from interest rates slightly increased by only 0.68% yoy. A sharp drop in COF is the main motivation for improving net interest income. Meanwhile, increasing service income (+42%) and revenues from bad debt handling (+75%) are key growing drivers for non-interest income (+2.5%yoy).
- The handling of bad debts and restructured debts under Cir.01 is positive as restructured loans declined to VND 7.5 trillion (2.2% of total outstanding debt) at the end of Q12021.

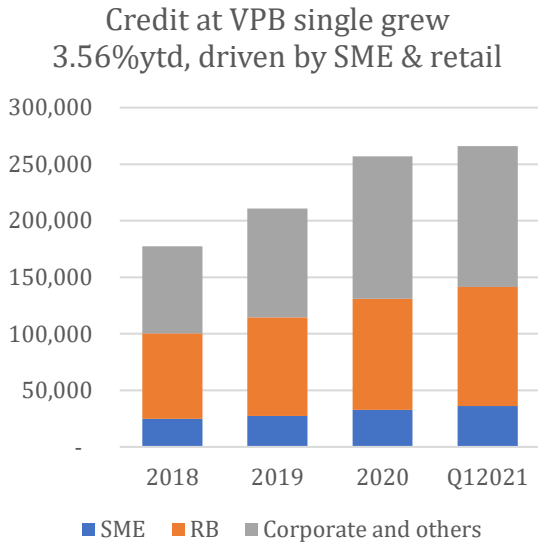
Recommendation:

VPB shares are trading around 58,000VND/share, corresponding to P/B 2.41, higher than most banks in the sector (only below VCB) and 10%-20% higher than the same-size commercial banks.

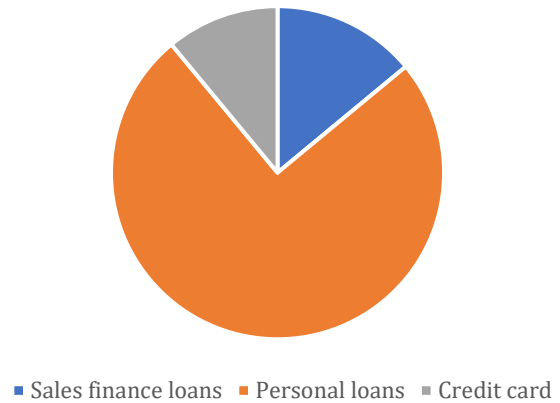
Therefore, IVS rated "NEUTRAL" for VPB shares when the current price has reflected expectations of FE Credit divestment as well as the bank's business prospects.

BUSINESS RESULTS Q12021

Credit growth still suffers from Covid's impact



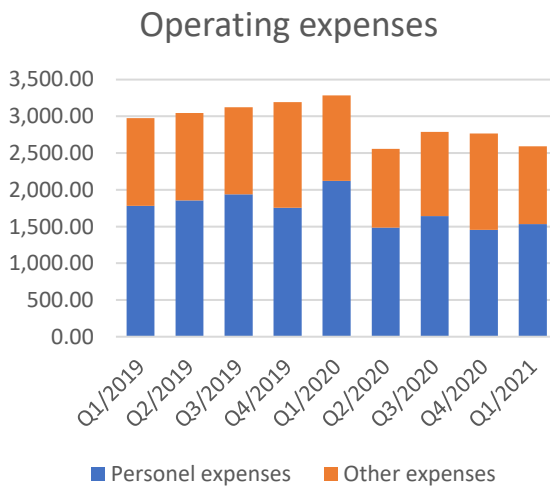
FE Credit's ENR slightly down 0.1%ytd as keeping the tightened lending policy



Sources: VPB, IVS Research

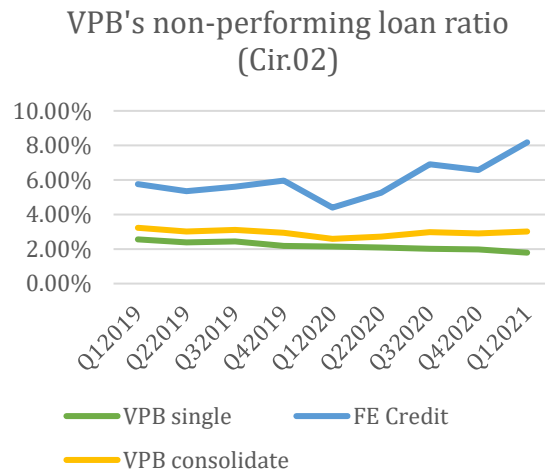
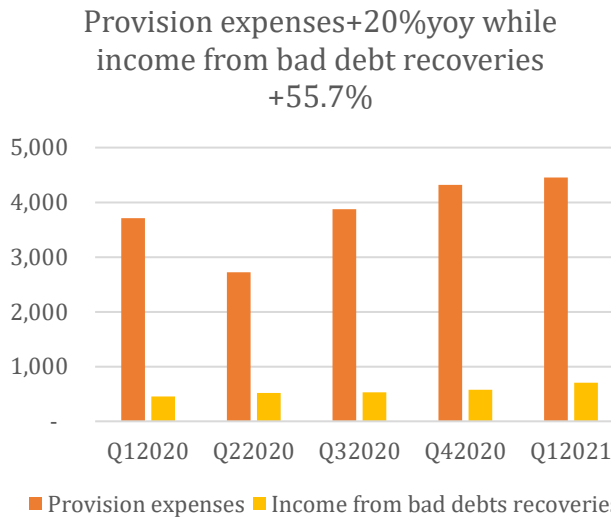
Cost reduction is the key factor to maintain growth

In addition to the sharp decrease in COF, operating costs (employee salary mainly) continued the downward trend since the second quarter of 2020 after the covid-19 outbreak that helped VPB to maintain profit growth.



Sources: Fiinpro, IVS Research

Fe Credit possesses burden on bank’s consolidated credit quality

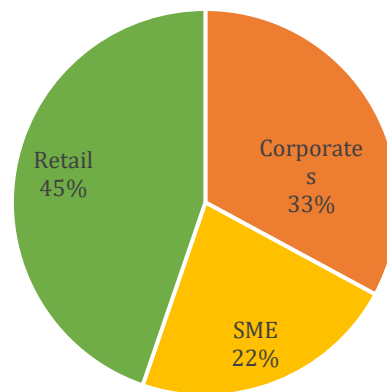


Sources: VPB, IVS Research

Positive signal from debts restructuring activities

- Total restructured loans decreased sharply, to VND 7.5 trillion (VND 1.7 trillion from FE Credit) thanks to two-thirds of the outstanding balance of customers back to normal (corporate and individual customers).
- 2.6% of restructuring balance (VND 500 billion) is overdue by the end of Q1/2021 and recorded in group 5 debt account.
- Cir.03/2021 helps to relieve the provision expenses pressure in the short term. Under this new circular, VPB plans to set up about VND 1.12 trillion in provisions for restructuring balance within 3 years (2021 is VND 340 billion, 2022: VND 330 billion and 2023: VND 450 billion).

Breakdown restructured loan at the end Q1/2021 (cir012020)



Sources: VPB, IVS Research

⇒ VPB's assessment to control assets quality: setting up high provision expenses and using the equivalent figures on specific provision balances to clear bad debts. Also, the bank now is stopping restructuring loan according to the support circular, but immediately clearing bad debts by using provision balance.

COMMENT AND RECOMMENDATION

- In spite the divestment at Fe Credit, Fe Credit will remain a key pillar of VPB's growth model. The bank's outlook is expected to be brighter from the third quarter with expectations from Fe Credit's business recovery to reach the ENR growth of over 10% in 2021. Thereby, the consolidated credit growth of VPB can reach 18%yoy at the end of this year.
- The bank may continue to benefit from a low interest rate environment that helps to expand net interest margins for at least the next 2-3 quarters before the trend reverses.
- Unsustainable income structure: the contribution of non-interest income to total bank's income is very low (about 10%TOI). That is the reason while VPB's income is more vulnerable due to external event like Covid. Despite the efforts to promote non-interest income, the growth rate in this segment is too modest to help the bank reach more sustainable growth over the long term.
- In terms of operating cost management: we believe that the downward trend of CIR is only a short-term trend and will soon reverse in the future when the bank, especially Fe Credit is likely to recover from the second half of 2021. The cost of promoting sales and personnel expanding will make CIR higher.
- The handling of bad debts and restructured debt has made very positive progress to help somewhat remove concerns about the quality of the bank's assets. Despite this, provision expenses will not likely decline in the future due to the business nature engaging in high-risk segment.
- VPBank and SMBC Group have officially come to a mutual agreement on the sale of 49% capital in FE Credit on April 29, 2021. The deal's value is estimated at nearly \$ 1.4 billion, corresponding to P/B 3.4x, higher than previous M&A sales of consumer finance companies, showing the investor's willingness to pay for the leading consumer finance company in Vietnam. Although the payment terms between VPB and Sumitomo Mitsui are undisclosed, through under this agreement, VPB has achieved significant benefits: (1) strengthening the capital buffer thanks to the profit from the deal, (2) the cooperation with experienced Japanese partners helps FE Credit to raise capital and gain access to know-how this group.
- Conclusion: VPB will faces many challenges to maintain high profit growth in the future when Fe Credit has taken a fairly large market share so faces difficulties in expanding the ENR (both in size and legal aspects). We appreciate VPB's efforts in solving the growth problem as FE Credit is preparing to put the Ubank model into operation with new expectations. The adaptation and effectiveness of this model in Vietnamese market will be one of key factors to re-evaluate VPB shares in the future.

RECOMMENDATION

VPB shares are trading around 58,000VND/share, corresponding to P/B 2.41, higher than most banks in the sector (only below VCB) and 10%-20% higher than the same-size commercial banks. Therefore, IVS rated "NEUTRAL" for VPB shares when the current price has reflected expectations of FE Credit divestment as well as the bank's business prospects.

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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